

# INVESTMENT INSIGHTS

March 8, 2023  
Letter #112



## Why Do We Ask?

“What’s the market going to do?” This question and similar queries such as, “Where are interest rates headed?” or “Will we have a recession?” fit into a category I call important but unknowable. Knowing the short-term path of the economy or interest rates or the stock market would almost certainly be actionable and profitable information - as would knowing next week’s winning lottery number. Yet, we accept the fact that nobody can predict the lottery number, but we keep asking about next week’s market direction.

I have spent considerable time thinking about our fascination and curiosity with short-term, unknowable financial information. Below, I suggest

some possible motivations which may account for some of the reasons we continue to ask, but don’t feel that I’m capturing the entire answer. So, I am asking for your thoughts.



## Our Mission

*“To guide our clients to and through retirement with a minimum of worry, with expertise and kindness.”*

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## What are the possible reasons we ask unanswerable questions?

### 1. Conversation

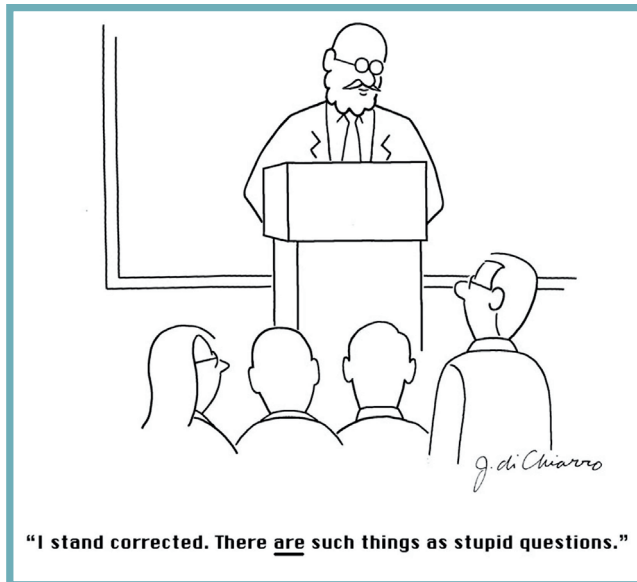
Maybe asking what the market is going to do is just a conversation starter similar to asking about the weather. However, short-term weather forecasts are reasonably reliable while short-term market forecasts are not, so that analogy doesn’t really hold.

### 2. Belief That It’s Knowable

After listening to commentators on financial shows predict market, economic, or interest rate moves with extreme matter-of-fact confidence, it’s understandable if we think these questions can be accurately answered. Of course,

DJIA	3-Month T-Bill
<b>32,839</b>	<b>4.74%</b>
S&P 500	10-YR Treasury Bond
<b>3,985</b>	<b>3.97%</b>

there will be correct predictions given on all forms of media and by financial advisors. However, there is no evidence that these predictions are better than random or that the predictions can generate consistent actionable and profitable short-term investment advice.



If someone were asked to predict the outcome of a coin toss, he would likely be right about fifty percent of the time. But that's not actionable advice no matter how confidently heads or tails is predicted. One would think that after hearing similar useless but confident financial guesses, we would stop listening. Or asking. And yet the predictors keep predicting precisely because we keep asking.

### 3. Perfectionism

Do we need or want to avoid mistakes so badly that we continue to pursue information to try to sidestep inevitable market downturns even when we know the information is not reliable? For instance, when we buy a bond, do we expect to time the interest rate peak and become exasperated when rates edge up the following week? If only I had listened to that "expert" on TV who predicted rising rates (and ignored the other commentators who predicted lower rates). I think it is human nature to try to avoid being wrong and to seek perfection. Wouldn't it feel great if

we could be perfect in everything we do? But we seem to expect perfection in financial matters in a way that we don't in other activities. Perhaps this occurs because financial mistakes are generally quantifiable while mistakes in other areas of our lives are less so.

### 4. Fear

I believe it is instinctual for people to try to avoid pain – physical or emotional. Is sidestepping a market drop the modern day equivalent of the caveman avoiding the saber-toothed tiger hiding in the bush? Are these both examples of our survival instincts?

Less instinctual and more reasoned would be the reaction of an

investor who needs a certain level of assets in order to meet an objective, like living a comfortable retirement. This person is fearful that a market downturn would alter his retirement plans and may feel driven to ask the unanswerable questions.

The flip side of downside fear is upside fear – the fear of missing out. Obviously, receiving accurate short-term information would allow us to maximize our returns and accumulate more money. So asking for information to help improve our situation makes sense. Alas, if only this information were reliable. To understand both sides of the fear catalyst, consider the recent roller coaster experience of investors in crypto currencies.

### 5. Confirmation Bias

If I feel convinced of a certain outcome (a stock market decline for example), I might ask "what's the market going to do?" searching for someone to agree with me. As an aside, this is likely why so many people watch cable news networks that concur with their preconceived notions. Hearing someone else confirm what we believe makes us feel better.

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## Why does any of this make a difference?

If asking the unanswerable were merely a polite conversation starter or an idle point of curiosity, there would be no harm in asking. If, however, the question is asked with the intent of taking an actionable step in response to the

answer (like selling assets or delaying investing), then asking the question can be quite harmful to one's long-term financial outcome.

According to Crestmont Research, in the last 113 years the S&P 500 has been

profitable over 96% of rolling ten-year periods. That means a ten-year holding period has lost money only 4 times in over a century. If the typical time horizon for utilizing money placed in a stock portfolio is also ten-plus years, why consider the return for the next ten months, ten weeks, or ten days when the probability for profit in those holding periods is at best a coin toss?

So I am at least partially stumped and would like your help. Why do you think that we want to ask financial questions that are not answerable with any consistency

or helpfulness? Do you think the reason is some combination of the five factors that I discussed above or something entirely different? And while you're pondering that question, I have one more for you: "What's the market going to do?"

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## Hypocrisy?

If it seems somewhat hypocritical to rail against asking unanswerable short-term financial questions while inviting you to the CFA Forecast Dinner, it is.

But allow me to explain. While the panelists at the dinner are always asked to make one-year predictions about the stock market and interest rates, they do so grudgingly and usually admit it's just guesswork. In my opinion, the main benefits of the event are 1) it's a lovely social event and 2) we often gain insights from the panelists regarding their investment process and behavioral insights. I have lobbied for a name change for the annual event, but the CFA Forecast Dinner has a long history with the international CFA Institute and the Mississippi CFA Society. I hope that at least partially explains my hypocrisy.

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## Horse Update

Thanks to many of you for asking about my Standardbred horses. Here are a few highlights from the 2022 season:

Cheek Please (Cheeky) has been retired from racing and is at a breeding farm in Indiana where she will hopefully become a mama.

Captain Tell (Kojack) – The newest member of Finkelberg Racing was bought at the yearling auction this past fall and

is training in North Carolina. Fingers crossed, he will hopefully be ready to race this summer at Hoosier Park in Indiana.

Ponda Warrior (Bear) – This extraordinary athlete had a super-phenomenal year. He seemed to mature and race better as the year progressed. Bear won the Indiana Sires Stakes Championship and raced in The Breeders Crown in Canada. He finished mid-pack in that race, but his inclusion meant that

he was considered one of the top ten three-year-old pacers in North America. Overall, Bear raced 18 times in 2022, winning six races and finishing in the top 15 three-year-old pacers in earnings for the year. It just doesn't get much better than that!

The 2023 season will start soon. Any time you're in the office and would like to see a race video, you might have to twist my arm, but I think that can be arranged.



*Bear, driver Dexter Dunn, proud owners, and friends in the winner's circle at Hoosier Park after capturing the Indiana Sires Stakes Championship*

# Solving the World's Problems

Recently, the World Economic Forum held its annual meeting in Davos, Switzerland. My impression is that this yearly conference is basically a gathering of uber-wealthy self-

important people. Jack Hough, a very talented writer for Barron's Magazine offered this brief reflection of his time in Davos: "I left on Thursday. 'Why were you in Switzerland?' asked an

airport official. Davos, I told her. An eyebrow went up: 'Did you fix all of the world's problems?' No, I told her. That would have taken until Friday, and the rooms were too expensive."<sup>1</sup>

## 2023 CFA Forecast Dinner

This year I served as the Chair of the CFA Forecast Dinner, and I was pleased to have such a great turnout after a 3-year hiatus on having clients to the event. I hope everyone enjoyed their time and hope to have you back again next year!

-Davis



### Happy Anniversary

- 70th** J. and J.E. of Terry, MS
- 70th** J. and R.E. of Natchez, MS
- 63rd** J. and A.P. of Brandon, MS
- 50th** L. and M.J. of Signal Mountain, TN

### Special Birthdays

- 97** M.S. of Terry, MS
- 92** J.P. of Philadelphia, MS
- 92** J.L. of Jackson, MS
- 91** E.M. of Griffin, GA
- 85** F.G. of Madison, MS

### Out of Town Visitors

- D. and M.B. of Houma, LA
- J. and S. C. of Belzoni, MS
- R. C. of Leawood, KS
- J. and C.G. of Vicksburg, MS
- D.W. of Mendenhall, MS

Until Next Time,

**Arty Finkelberg, CFA, CFP®**  
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<sup>1</sup>Jack Hough "A Davos First-Timer's Notes on BorgWarner, Thermo Fisher, Blackstone, and Nasdaq" Barron's Magazine January 20, 2023