2021 Price Targets Don't Matter - Transcript

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Tim Mullooly: Welcome back to the podcast. This is episode number 334 of the Mullooly Asset Management podcast. This is Tim Mullooly. Brendan is here with me today. Brendan, how's it going?

Brendan: Going well. It's the end of the year. You know what that means?

Tim Mullooly: Tis the Season. Last year, we'll start off with this. Last year episode 287. If you go back was called Tis the Season for 2020 market forecasts. This one appropriately, we'll say, Tis the season for 2021 market forecasts.

Brendan: So how many people foresaw in their market forecast for 2020, how this year was going to go?

Tim Mullooly: Approximately zero. There might be some people out there who, their numbers might be somewhat accurate, but the route that we took to get there, literally no one could have predicted what happened throughout this year.

Brendan: And also if you went back to this time last year, and instead of giving a price target, you gave somebody the information about what was going to happen.

Tim Mullooly: Here are the events that's going to happen over the year of 2020.

Brendan: Right.

Tim Mullooly: What's your price target now?

Brendan: Right, exactly. So I think even if you had all the information in the playbook, meaning there are the known events, such as we're going to have an election later in the year and by the way, we're going to have a pandemic right at the beginning of the year. And that's going to stretch the entirety of the rest of the year. What do you want to do with stocks as a result?

Tim Mullooly: Yeah.

Brendan: Most people probably would have said sell or be hedge or buy bonds or puts or gold or some other sort of stuff. And that's been not at all what you would have wanted to do this year, surprisingly.

Tim Mullooly: 2020 has just been a good reminder for price targets since the last month of the year, here in December. Every year you see people coming out with their price targets for the following year. It's just a good reminder that these price targets are at best entertainment and at worst harmful nonsense if you're taking action on some of these price targets with your investments.

Brendan: Yeah. You're going to see people from different banks, investment shops, and they're going to be making the rounds on their white paper notes or their TV appearances to say that the S&P 500, the Dow Jones, the 10 year yield, or Bitcoin, this is where they're going to end 2021. And it's all just nonsense, it's guesses, but it kind of gets passed off as something more scientific than that. People will give you very precise numbers in these predictions that makes it seem like they've done quantum physics behind the scenes to come up with this price target. When in reality, it's just a guess.

Tim Mullooly: Yeah. Some people tend to rag on the people. Like it might sound like we're ragging on the people that make these forecasts or these price targets. But the only reason they're doing it is because people out there in the general public want to hear them, you know? So it's a two-way street there. They wouldn't need to make these price targets if people didn't demand it from them.

Brendan: Yeah.

Tim Mullooly: Stop demanding price targets from people and you won't have to hear their guesses.

Brendan: Also important to keep in mind too, that folks will make price targets now. We saw this a year ago, so you'll make a price target now, at the end of 2019, last year at the end of 2019, that says this is where I think things will end up at the end of 2020, and then.

Tim Mullooly: A 12-month price target.

Brendan: Yeah. Yeah. And so then they'll come back after the market action we saw in February and March and amend their prices for the first quarter. Well, now considering what's happened in the first quarter, this is where I think the year will end up.

Tim Mullooly: The rest of the year 2020 price targets. The nine month price targets.

Brendan: They'll amend it lower.

Tim Mullooly: Yeah.

Brendan: And then over the summer, as things start to recover, they come back out and say, well, considering all of this and the progress that we've made, here's where we think the year's ending up. And so what they ultimately end up doing is they basically shoot an arrow and then walk at the end of the year and draw a bullseye around it and start celebrating as if they called it.

Tim Mullooly: Yeah.

Brendan: See how right we were. And you don't need that sort of information to invest appropriately. You didn't need to have a 2020 price target to do well this year. What you actually needed to do was understand your own time horizon and why you're investing in the first place so that you were set up appropriately to endure the downside volatility of February and March, and then also reap the rewards of the recovery that we've seen since March.

Tim Mullooly: Right? Like you said too, a little bit earlier, even if you knew the events, you still don't know what the market's going to do. So we always talk about how predicting the future is impossible, but you would have needed to predict two things correctly to be right here in 2020, if you were trying to jump in, jump out, jump in, jump out based on what's going on.

Brendan: Not only would you have had the unknowable event, but you have to then predict how people are going to react to that event, which is even more impossible than foreseeing something in the first place, because it involves human emotions of millions of people across the face of the earth.

Tim Mullooly: Yeah. So your price target would have had to see COVID-19 coming and then it would have also had to see how people were going to react to that in terms of the market.

Brendan: And also stimulus response from the fed and from Congress.

Tim Mullooly: And what kind of impact they were going to have on the market and how people thought about that.

Brendan: So what they did was, these are things that we've never even seen before. So to predict that would have been, wow, you really think they're going to do that. There's no precedent for that. This whole year has been unprecedented this, unprecedented that.

Tim Mullooly: Right.

Brendan: And you don't need to play these games, I guess, is what we're telling folks. And I think that's what we told them last year, too, that we didn't need to have a price target to make an appropriate portfolio for clients.

Tim Mullooly: Yeah. I went back and I re-listened to episode 287 when we were talking about people's 2020 price targets. And a lot of the conversation in 2019 was about interest rates and the fed. There was no mention of COVID-19. There was no mention of a pandemic. There was no mention of vaccines, stimulus, recessions. At that point, we didn't even know that Joe Biden was going to be, we didn't know who was going to be running the democratic nominee. So we didn't even know what the election was going to look like or what was going to happen from that. But the messages that we had were the same at the end of 2019 as they have been throughout the year and as they still are today going into 2021.

Brendan: Yeah and sometimes it's a boring message sometimes. Because a lot of the advice we have is evergreen. And sometimes it seems like there's no way that evergreen advice could be right, considering this. This is totally different. This is something we've never seen before. And I think I'd err on the side of saying that's not the case and that's a trap. And I think that when it seems like the eat your vegetables kind of boring advice that sometimes we have to give out, when it most seems like that is no longer appropriate, is exactly when you need to do it the most. And it seemed like that in multiple cases this year, not only during the sell-off earlier when the virus first hit, but also in the month or two leading up to the presidential election.

Tim Mullooly: Yeah.

Brendan: We had plenty of discussion about that here on the podcast and in videos and on the blog.

Tim Mullooly: So there's pretty much two textbook examples of staying the course and our message here, like you said, the boring, eat your vegetables, kind of sit there, do nothing approach. It worked out two times this year so far. Again, we don't know what's going to happen in the future, but based on things that have transpired, as time goes on, it seems like that's usually the thing to do.

Brendan: Our advice is never going to be right because some short term market view of ours has been proven correct or anything like that. It's never because of that. And so you're right to say that we don't know what the short term brings for the market, and we'll never purport to know that. However, we do purport and understand our clients and what they're doing and their circumstances and what they're comfortable with and their goals. We do understand all of that stuff and that's how we're building our portfolios. And I think that's why we can help folks get through a year like this successfully because those are the things that matter even when they don't seem like they're the most important things.

Tim Mullooly: Yeah. I agree. And on top of that broader message of how events impact the market. Another message that we talked about in 287 last year was about the benefits of diversification and how big name stocks can come and go. So the benefit of having exposure to different areas, we were talking about the different decades where international was the place to be. Or you did better in bonds than U.S. stocks or different areas of the stock market.

Brendan: And it's still valid. We just saw that with the returns that we saw in November.

Tim Mullooly: Yeah, exactly.

Brendan: That was a perfect case in point of what you're describing in terms of, most of the year large cap U.S. stocks and technology stocks did really well through all of the virus. And you obviously realized the value of having bonds in your portfolio during the sell-off in March. But just last month we saw the S&P 500 up 10%, but we saw some other areas of the market, meaning some of this diversification you're talking about, do even better. Small cap stocks were up 16% in the month of November. That was their best month ever recorded for the S&P 600 index, which is the small cap stocks. And surprisingly enough, or maybe not, the worst ever month for them was March of this year.

Tim Mullooly: Yeah. And I know we've said it before, either on podcasts or videos, but you know, the research shows that usually the best and worst months for the market in general or different areas like you're saying, small caps, those best and worst, the extremes tend to happen really close to each other. So it's hard to jump in and jump out because you might be jumping out to avoid one of the worst months, but odds are you're not going to get back in before you potentially miss one of the best months.

Brendan: Yeah. There was absolutely no signal or sign in March to say that small caps are about to get creamed, worst month ever. Just as there was no sign as the calendar turned from October to November that they were about to take off and have their best month ever.

Tim Mullooly: Yeah.

Brendan: And so short of having something like that, which, hint hint, does not exist, short of having something like that, you just need to make sure that you own some of these areas and that you do so in proportions that are appropriate, given what you're trying to accomplish, which is exactly what we help clients with. We can't do short term market timing to nail these tops and bottoms, their best and worth worst months, but we can help people to own these things in reasonable proportions, given their goals and what they're trying to do.

Tim Mullooly: It doesn't always work out the way that it did in November. Today is December 3rd, it's one month from election day. There are plenty of people who wanted to kind of wait out the election and see what happens. Should we take some money off the table? We don't know what's going to happen either way, depending on who wins.

Brendan: Yeah.

Tim Mullooly: Before the election, leading up to it, once the quote unquote dust settles, we'll be able to get back in. Right. Exactly. So it doesn't always work out this way, but it was a clear...

Brendan: Classic example of why you can't do stuff like that.

Tim Mullooly: Exactly.

Brendan: Because like I just said, small cap stocks up 16% in that month, mid cap up 12. Value stocks, which had been lagging all year, up 14.

Tim Mullooly: Right.

Brendan: The S&P 500, even just the plain old market, up 10. You can't afford to miss that many 10% months over your investing lifetime. Because if you missed enough of them, they don't happen that often. And all you're doing is you're eroding your returns. And I know that in a lot of cases, it may have seemed like the smarter savvy thing to do, because there's a lot of uncertainty. There's this big event that everybody's worried about. Seems like a great time to just wait and see. But it wasn't a great time to wait and see.

Tim Mullooly: And there's still uncertainty.

Brendan: Yeah, yeah.

Tim Mullooly: There are still things up in the air.

Brendan: We don't have all the answers and we're never going to. There's always going to be a crisis de jour on the horizon.

Tim Mullooly: Right.

Brendan: And that's just something that we have to deal with as investors. That's why we make money by owning stocks. It's for bearing that risk.

Tim Mullooly: Right. Yeah.

Brendan: It's because we don't know. If we knew for sure how everything was going to play out, there would be no risk involved.

Tim Mullooly: Yeah, exactly. There's trade offs to wanting to see how things play out versus to just potentially buckle up for whatever's going to happen.

Brendan: Understand that there's uncertainty. Try to wrap your mind around what the potential outcomes could be.

Tim Mullooly: Yeah.

Brendan: And then do something based upon your comfort levels of what the possibilities are.

Tim Mullooly: Yeah. And it's easier said than done to look at what's going on in the country, whether it's political or to what's going on in the stock market and your own personal investments. It feels like everything is intertwined. Like this is going on in the country, or this is going on, or this headline is saying this. So like, I think my stocks are going to go down. It's really hard to separate everything out from like getting caught up in what's happening versus your own long-term portfolio. It's really hard to separate the two.

Brendan: But you have to do your best with it.

Tim Mullooly: Yeah. That's where you want to get to.

Brendan: So having said all that, where do you think the S&P ends 2021, Tim?

Tim Mullooly: One funny thing actually from episode 287, we were talking about different stocks that were around that are no longer around anymore. And one that Tom said on that podcast was Eastman Kodak. And you guys were talking about how Kodak was once a massive stock and how it's essentially bankrupt now and out of business. And little did we know Kodak was going to have a quick 15 seconds of fame here in 2020? You remember that?

Brendan: Yeah. Hot second, where we were all talking about them.

Tim Mullooly: Yeah.

Brendan: This year with people buying their stock on Robinhood and things like that. So, yeah, that is funny.

Tim Mullooly: Yeah. There was a chart that we have talked about before and it goes back to listening to people on TV or these guys that are making these price targets. And it's important to remember who they are, where they're coming from and their incentives, and why they might be saying what they're saying. The chart and in the show notes, I think we've posted it before, but it's called like the Armageddonist chart, because it's a handful of guys that for the last decade essentially have been saying, get out of the stock market and go to cash.

Brendan: Yeah. And it shows that if you flipped and you did what they said on the date they said it like what your returns would have been like there.

Tim Mullooly: Right.

Brendan: And it's the opposite of the chart you'd like to see. It's from the top left to the bottom, right?. They're all money losing trades.

Tim Mullooly: Yes.

Brendan: So maybe eventually they're vindicated, but I think the important point, like you said, Tim, is to just remember that when somebody is giving a price target, there's something to it. So they're probably talking their own book or it could even be a veiled commercial for whatever it is that they do. Listen, if you want to watch that sort of stuff and use it as entertainment, that's great. But don't go making changes to your investments or even really considering it based on what anybody has to say.

Tim Mullooly: Right? Yeah. It might seem like they're speaking directly to you, but they're not your fiduciary advisor. They don't have your best interests personally.

Brendan: They probably aren't even doing anything as a result of those guesses with their own money.

Tim Mullooly: Exactly. It would be great to see a graphic on the TV screen of someone who is giving advice about the direction of the market or their price target for the next year. How is their money invested. What are they doing if they manage a hedge fund or client's money, what are they doing with that? I think there's something to be said. You mentioned the phrase earlier, not wrong, just early. That doesn't really apply when the timeframe there is a decade. You're just wrong at that point. Eventually these guys on the chart and people that make these sort of calls. They may eventually be right. But if you're wrong for 10 years before that? That's not the track record that you want. You're just wrong at that point.

Brendan: You can call for market corrections or drops in stocks as much as you want and eventually you're going to be right, because eventually markets do go down just like they eventually go up, too. There's nothing to say that's useful information to predict the market going down, unless you have an exact date and the amount that it's going to go down. I'm not sure that's even helpful to folks, but it certainly gets headlines. It gets you invited back on to talk shows and all that, articles written about what you have to say. So, it accomplishes that but I'm not sure it really helps anybody. And, again, I'm not sure that folks predicting that sort of thing are necessarily going out and shorting stocks or doing anything as a result.

Tim Mullooly: Yeah. And I think these guys who are perpetually bearish in a sense about the market, at least for the last decade, the chart was updated to show this year as well. So the market, we did see an extremely quick bear market, but we went down 35%, and the chart reflects that, but these guys still are net incorrect. So it just goes to show if you told these guys before the year started, too, they'd double down on their predictions and they'd still be wrong.

Brendan: Yeah, it's a game you don't have to play.

Tim Mullooly: Yeah.

Brendan: Unless you want to be a guest on financial TV shows and then I guess you do have to play it. But that's fortunately not something that we have to sign up for.

Tim Mullooly: Right. It feels like it doesn't need to be said over and over again, but predicting the future is impossible.

Brendan: Right.

Tim Mullooly: And we say it a lot, but it bears repeating because for some reason people out there like to try and convince other people that they can do it. We're here to say that that is not the case.

Brendan: We can't, you can't, nobody can. And it's totally okay. You don't need to be a good investor.

Tim Mullooly: So I fully look forward or to having our Tis the Season 2021 podcast next year. One thing that I did want to bring up, this is not market-related, but it had to do with some predictions that we made and it drives the point home that predicting the future is really, really hard. We're going into week 12, I think, or 13 of the NFL season. And I remember we were sitting here weeks ago at the beginning, right before week one. And I asked you what you thought the Jets were going to do this year.

Brendan: What did I say?

Tim Mullooly: I think you said either five and 11 or six and 10.

Brendan: All right. So I was bearish, but not bearish enough.

Tim Mullooly: I said they were going to go like 500. And if any of you are NFL watchers or Jets fans along with us, I feel your pain. And also, it just shows how very wrong we were.

Brendan: We'll stick to helping folks with their investments.

Tim Mullooly: Exactly. Yeah. All right. Well, that's going to wrap up episode 334 of the Mullooly Asset Management podcast. Thanks for tuning in. We'll catch you next time.