A READER'S GUIDE TO **2021 OUTLOOKS**

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Around this time of year you will start to be showered with gifts – 'tis the season of the year-ahead outlook!

Banks, professional bodies, consultancies and investment managers will each be providing you with their house-view under the guise of them being predictions of what lies ahead in 2021. All will be working under the assumption that they offer a fair, sober and unbiased prognosis for the year ahead.

They don't.

Indeed, it was just twelve months ago that many of these publications would have arrived in your inbox boldly entitled "2020 Vision", a clever play on words for sure, but one that proved to be too clever by half. How did such confidence in the certainty of the future turn out for you?

We are not against the publication of year-ahead outlooks per se – at their very least they offer a wonderful resource for those seeking their comfort in confirmation bias (actually, that's quite a feature of this literary genre). Varied opinion provides the reader with ample opportunity to browse, seeking out those expectations that corroborate their own views and discarding those that don't. All is calm, all is bright, let's not upset the applecart with challenges to pre-conceptions, long held beliefs and stale positions!

It is difficult to make predictions, especially about the future[1], so let's not be too hard on those that are tasked with such work ... like the experts in our Investment Strategy Team for instance.

At Cardano we do make predictions. We do forecast markets returns. We look to the long-term and importantly, we are cognizant of the limitations inherent in the forecasting of the short-term.

We will invest where we see favourable risk-adjusted returns. We will select third party managers with strong track records and with repeatable investment processes. But, when constructing portfolios with high return-seeking investments like equities, we will always consider alternative scenarios. We will invest in assets that perform well when economic conditions are not at their most favourable. We will keep your portfolio on track no matter what the future holds. We will protect your downside should the unexpected happen.

[1] Paraphrased from Mark Twain, Niels Bohr or Yogi Berra depending on which source you pick!

If you are reading annual outlooks here are eight things to bear in mind that will at least help you along:

01

"No" is the accurate answer to any heading, title or comment expressed in the form of a rhetorical question[2].

02

If everyone expects the same 'thing' to happen, the risk lies in them all being wrong...

03

... if that 'thing' happening **is actually** priced into markets, then taking a contrary view has a positive risk-adjusted return expectation, taking the consensus view does not. Always consider the implications of the consensus being wrong. For example, check how similarly sure everyone is of the impact of vaccine roll-out and then ponder upon the alternatives scenarios.

04

Extraordinary claims require extraordinary evidence[3]. Forecasters are generally loath to make extraordinary forecasts because they can't possibly conjure up the required extraordinary evidence. But, extraordinary things can and will happen, more frequently than you think.

05

The exception that proves point 4 comes from a review of equity analysts' earnings estimates. These will start the year being extraordinarily high and then be gradually revised downwards as, slowly, the realization dawns that nothing extraordinary has happened at all.

06

Anything that **is said to be** priced in, is not. Note the difference in wording to point 3. New news moves markets – always has done, always will. Take the recent US presidential election as an example.

07

Take care if you hear "Bond bubbles will burst / Equity bubbles will not". On and off, these have been mainstays in year ahead outlooks for most of the past 30 years and they have been spectacularly awry on several occasions. But, is a changing inflation environment being factored into the relationship between bonds and equities? See point 1.

08

Two wrongs don't make a right. Having the right forecast for the wrong reasons isn't very helpful. You can be bankrupted by the path-dependency implied by the wrongness of those reasons well before you arrive at the rightness of the forecast.

[2] Otherwise known as Betteridge's Law
[3] Carl Sagan, Cosmos, 1980

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