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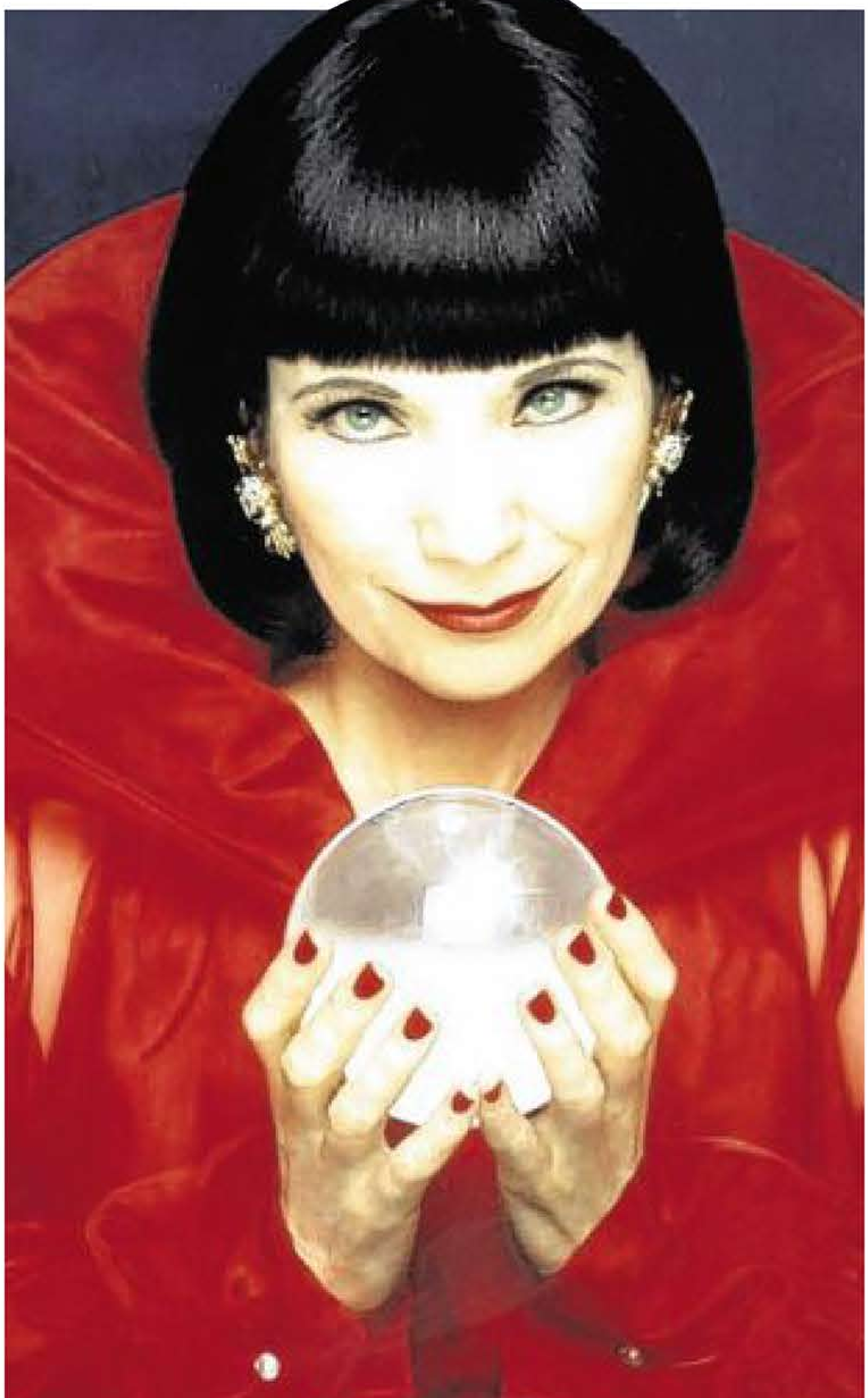
Guesswork a non-starter if planning your financial year

Crystal ball-gazing is no way to manage your finances, says Barry O'Neill, an investment director with Carbon Financial Partners in Aberdeen



FUTURE-PROOFING: Advice is given to avoid over-investing in single assets

You may still be enjoying turkey soup, turkey curry or cold turkey sandwiches, but it's at this time of year that we start to get inundated with forecasts about the economic outlook for the coming year.

We are also traditionally flooded with projections about which investments are supposedly best-placed to prosper.

So how reliable are these pronouncements? In short, they are about as accurate as a weather forecast would be for December 2016.

I wonder how many meteorologists successfully predicted 12 months ago that we'd be enjoying temperatures of 16 degrees centigrade the week before Christmas.

The reality is that market forecasters are equally as bad at predicting the future.

There are simply too many unknowns to have any confidence in short-term predictions.

If the world paused for breath and there was no unexpected news for 12 months, I'd be able to have a pretty good go at predicting where markets might be in a year.

Because we know that life doesn't work like that, it will be the curve balls that life throws us that really shape where markets will be in a year.

> "The secret is to own a well-diversified portfolio"

If you have had a recent major life event like retirement or redundancy, you might be looking for words of wisdom as to whether markets are currently over or under-priced before you decide to invest for the future.

The truth is that they are almost certainly fairly priced and this is true every single day. Market participants, both buyers and sellers, agree every day on a price point at which they are prepared to transact.

This state of market equilibrium is true in good times and bad, including the 2008 global financial crisis.

The overwhelming uncertainty about the future at that point led investors to want to pay much less for any companies they were buying into to lessen the chances of losing money, while sellers wanted liquidity and were prepared to accept far less for their holdings in exchange for the perceived risk-free asset – cash.

The best thing investors can do is to accept the market price as an accurate reflection of all participants' feelings. Their collective expectations and uncertainties have been factored in.

Because we don't know what world event might impact investment markets next, the secret is to own a well-diversified portfolio not overly exposed to any single company, sector, country or asset class. As for crystal ball gazers, it is worth noting the words of famous North American economist John Galbraith who said: "There are two kinds of forecasters; those who don't know and those who don't know they don't know".