

Wealth Managers: Reality Check on DAX-Prognoses 2007 - 2009

Stock Market Forecasts are Far from Accurate

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Around the turn of the year banks and wealth managers publish their forecasts for the development of the major stock indices in the new year. Most of them conclude them with the prediction of the index points at year-end closing. Media coverage for these forecasts is guaranteed, accuracy however not at all, as a recent analysis shows.

An analyst team of HSBC has [researched the forecasts for the German DAX](#) Index provided by more than 30 banks, wealth managers and fund issuers for the last three years and compare them with the actual year-end numbers. The results are disillusioning: The average prognosis and the actual year-end closing differed from each other up to stunning 45% and only in one of the last three years four banks out of 36 could predict the correct range.

The detailed analysis as displayed in the table below shows for 2007 a range in the prognoses of more than 3.000 points; a difference between the forecasted and actual year-end number 15% and no provider predicting the correct range for the year-end closing. 2008 has been a disastrous year for all prognoses: After a far better than forecasted year 2007 the optimism went through the roof and the banks and wealth managers forecasted for 2008 a year-end closing of the DAX at a minimum of 7700 points and a maximum of 10250 points. In reality the DAX closed 2008 with 4810 points, 45% below the average forecast. After the aggressive and wrong forecasts in 2008 the projections became more accurate, but on average still missing the real closing number by 12%.

DAX (Actual vs. Forecast)	2007	2008	2009	2010
Year End (Actual)	8067	4810	5957	?
Average Forecast:	7031	8585	5304	6217
Forecast (Range)	% (n=39)	% (n=42)	% (n=34)	% (n=36)
<4200			3%	3%
4200 – 4400			6%	3%
4401 – 4600			9%	
4601 – 4800				
4801 – 5000		Actual: 4810	20%	
5001 – 5200			9%	
5201 – 5400			9%	3%
5401 – 5600			17%	5%
5601 – 5800			3%	
5801 – 6000	2,5%		12% Actual: 5957	17%
6001 – 6200			6%	19%
6201 – 6400	2,5%			8%
6401 – 6600	5%		3%	19%
6601 – 6800	2,5%			6%
6801 – 7000	26%			11%
7001 – 7200	23%			
7201 – 7400	31%		3%	3%
7401 – 7600	2,5%			3%
7601 – 7800		5%		
7801 – 8000	2,5%	5%		
8001 – 8200	Actual: 8067	7%		

8001 – 8200	Actual, 2007	1/70		
8201 – 8400		19%		
8401 – 8600		26%		
8601 – 8800		12%		
8801 – 9000		12%		
>9001		12%		

Source: HSBC

Not surprisingly the prognosis of a stock market, even more the forecast of precise index points, is impossible and right hits should be attributed to luck rather than to knowledge. Otherwise there would be a lot more billionaires around. Analysts are human, they tend to be too pro-cyclical in their forecasts and by and large avoid to take a stand far away from the peer group. However, none of them claims to have the absolute knowledge nor gives a guarantee. Media and investors ask for forecasts and the more precise so much the better, but in consequence they should take them with a grain of salt.

A take-away for investors is that stock markets can develop far better, but also far worse than “everybody” expects. Even the extreme ranges of forecasts do not provide limits in real life and, as 2008 demonstrated, not only a few, but all of the analysts can be completely wrong. Investors should take stock market forecasts as an indicator for the general opinion and not the market development. They are advised not to underestimate the volatility of markets and how low respectively high a bear or bull market can go in spite of what the predominant opinion is.

The average prediction for the closing of the DAX in 2010 is 6217 points, ranging in most forecasts between 6000 and 6600 points. If the results of the last years can provide any guidance it would be not surprising if the DAX closed this year either below or above this range.