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January 2025
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My Fearless Predictions for 2025

It's January and the annual forecast issue of *Kiplinger's Personal Finance* has arrived in my mailbox. I have no interest in *Kiplinger's* forecasts for 2025, but it prompts me to look back to their January 2024 forecast issue to see how their recommendations of which stocks to buy and which stocks to sell in 2024 turned out.

- A portfolio equally divided among the eight stocks *Kiplinger's* recommended for 2024 rose 15.4% last year. Nothing to complain about there. Meanwhile, the Vanguard Total Stock Market Index ETF (VTI) gained 23.8% according to Morningstar.
- A portfolio equally divided among the five stocks that *Kiplinger's* advised readers to avoid or sell last January gained 15.2%; providing the latest evidence that *Kiplinger's* has no idea which stocks readers should buy or sell.
- Nine of *Kiplinger's* ten recommended actively managed domestic stock mutual funds underperformed the Vanguard Total Stock Market Index Mutual Fund (VTSAX). The average return of the recommended funds was 15.5% in 2024 -- trailing the return of the Vanguard fund by more than 8%. Like Casey Stengel used to say, "You can look it up."

Let's not be too hard on *Kiplinger's*. Their lack of predictive ability is typical of all forecasters. *Barron's* made its own list of ten stocks to buy in 2024. Alibaba Group Holding, Alphabet, Barrick Gold, Berkshire Hathaway, BioNTech, Chevron, Hertz Global Holdings, Madison Square Garden Sports, PepsiCo, and U-Haul Holding. Only two of the ten outperformed the S&P 500 Index - Alphabet (+36.0%) and Berkshire Hathaway (+25.5%). The other eight underperformed, with four netting negative returns (Pepsi; U-Haul; Barrick Gold; and Hertz). Meanwhile, the S&P 500 yielded a total return (including dividends) of 25.0%. It seems that the promised stock picker's market once again failed to materialize in 2024.

This is a suitable time to review the 2024 performance of my Lazy Golfer Portfolio. This portfolio consists of five Vanguard index funds -- allocated 40% to the Total Stock Market Index Fund (VTSAX), 20% to the Total International Stock Index Fund (VTIAX), 20% to the Inflation Protected Securities Fund (VIPSX), 10% to the Total Bond Market Index Fund (VBTLX) and 10% to the REIT Index Fund (VGSLX). The Lazy Golfer Portfolio returned 11.3% last year, according to Morningstar.

New Year forecasts provide no value to long-term investors because no one can foresee the unexpected events that influence short-term returns or predict how investors will respond to these events. If I could bestow one bit of wisdom to all investors it would be the realization that there are no expert forecasters and no dependable forecasts. Although you readily admit that you have no idea what might happen this year, don't be misled into believing that someone else does. Most market prognosticators are better at self-promotion than prediction and have ready explanations for why they "missed it by that much" last year. Most excuses are variations on one of the following –

- **My timing was off but time will prove me correct.** Translation -- If my prediction ever happens, I'll claim that I was right all the time. This is the default excuse used by the "End of America" crowd on YouTube.
- **There was a flaw in my computer model which has been corrected**. Translation -- I was wrong, but I know what I'm doing now. This is often the last resort excuse used by soon-to-be-unemployed hedge fund managers.
- **If only (insert unexpected event here) hadn't happened, I would have been right.** Translation -- My forecast would have been correct if something that I didn't predict hadn't occurred. This is the excuse most often used by media pundits.

What else can they say? Certainly not, *"I'm just the latest in a long line of Wall Street nobodies who used my 15 minutes of fame to mislead investors who believed my vainglorious prattle."* Unfortunately, few prognosticators suffer consequences for wrong forecasts, which may help explain why we still have so many of them. If these forecasters could actually see what the future holds, they'd never let you in on what they know, and they'd soon be so rich that we'd never hear from them again. We'd all be better off if they engaged in the luxury of having unexpressed thoughts.

Let me conclude this critique of New Year forecasts and predictions by quoting Warren Buffett – "*We have long felt that the only value of stock forecasters is to make fortunetellers look good. Even now, Charlie [Munger] and I continue to* *believe that short-term market forecasts are poison and should be kept locked up in a safe place, away from children and also from grown-ups who behave in the market like children."*

That be said, and throwing caution to the wind, I can't resist the temptation to make my own Fearless Predictions for 2025.

- Already, the financial media is overrun with forecasters giving educated guesses about what the economy and the stock market will do in 2025. (I've yet to discover the difference between educated and uneducated guesses.) Some will prove to be reasonably accurate. Unfortunately, we won't be able to identify these lucky guessers until it's too late to do us any good. Peter Lynch, the legendary manager of the Fidelity Magellan Fund during its glory days, said that if he spent 13 minutes studying economic forecasts, he would have wasted 10 minutes.

- Proponents of active management will proclaim that we'll have a stock picker's market in 2025 because (insert lame, unoriginal reasoning here). But once again in 2025, the majority of active stock funds will underperform a comparable index fund. Proponents of active management will blame it on (insert lame, unoriginal excuse here) -- not on the fact that no manager is smart enough to consistently find stocks that are mispriced by all other market participants. Once management fees and trading expenses are subtracted, the majority of actively managed stock funds will continue to underperform their less expensive, "dumb" index fund competitors.

- Investors who engage in market timing and stock picking will waste great quantities of time and energy peering at charts and analyzing past data that the historical record reveals to be random.

- Sometime this year the stock market will begin a sharp decline accompanied by nerve-wracking volatility. If the decline exceeds 10%, the financial media will proclaim that the bull market is on its last legs. Upon hearing this, many investors will panic and sell their stock funds. By confusing volatility with permanent loss, they'll create permanent losses in their portfolios. Many investors believe that their advisor can protect them from the next bear market. Even though they may never have promised such a thing, too many advisors will be unwilling or too fearful to correct this delusion.

- From sea to shining sea brokers and financial advisors will be churning client portfolios. They'll recommend large-cap domestic stocks and the stocks of AI related companies. The most shameless panderers will also be recommending Bitcoin. Why? Because they were the best performing assets in 2024 and not one client in twenty realizes that as prices go up, value declines. Individual stocks will be pitched to investors as unique, moneymaking opportunities. This will be done without acknowledging the additional risks of owning individual stocks or the fact that no stock is likely to outperform its asset class over the long term. Once again financial professionals will sell hype and hope to gullible investors who don't ask enough questions. As Morgan Housel has cautioned: *"The business model of the majority of financial services companies relies on exploiting the fears, emotions, and lack of intelligence of customers. The worst part is that the majority of customers will never realize this."*

- More affluent, "sophisticated" investors ($200,000+ annual income or a net worth in excess of $1 million, excluding home) will be pitched private or alternative assets such as venture capital, hedge funds, private equity, private credit, and non-traded real estate. They will be promoted as exclusive investments that offer greater diversification and higher potential returns than plain vanilla stocks and bonds. As in years past, these investments are likely to create higher returns for the firms that offer them via commissions and hidden expenses than for their investors.

- Most new 401(k) contributions will be invested in funds that performed the best last year. If there's a more counterproductive portfolio activity than buying last year's winners, I've yet to discover it. Unlike performance chasers, rebalancers will buy the funds that performed poorly last year. In 2025, performance chasers will buy last year's winners from rebalancers. Rebalancers will buy last year's laggards from performance chasers. In the years to come both will experience reversion to the mean -- to the benefit of rebalancers and the detriment of performance chasers.

- In 2025, we will hear of one or more Ponzi schemes that have blown up, creating financial misery and ruin for many investors. Inevitably, the come-on of the schemes will have been the promise of double digit "safe" annual returns.

- Most financial journalism is mind clutter; continually taking the inconsequential and trying to pump it up into something consequential in order to increase eyeballs, ears, and clicks. In 2025 it will obsess over trivial, daily events and continue to spew its negative drivel -- enough to disturb and discourage even the most stouthearted investor. Not to be undone, social media will add gargantuan amounts of negative drivel and "influencers" will make unverified claims of wealth and promote get rich quick schemes that will mislead and bring financial ruin to many.

- Financial advisors will hesitate to tell clients that the only way to receive stock market returns is to remain permanently invested in the stock market. Instead, their clients, many of whom dread seeing any decline in their account value, will be pitched incomprehensible, complex investments that promise the fantasy of market-like returns without market risk. Unfortunately, most brokers and advisors who recommend these investments have an understanding of them that goes no deeper than a marketing brochure. This is a situation that rarely ends well.

- New Year's Day marked the 25th anniversary of Y2K, the expected global computer meltdown that many predicted would occur when the first two digits of the year changed from 19 to 20. For those of you too young to remember, many people feared that their financial accounts would disappear at the stroke of midnight on January 1, 2000. Well, nothing happened because we didn't get run over by a freight train that everyone could see coming from 10 miles away. Unfortunately, we don't live in a no-surprise world. In 2025, like in all years, we'll have to contend with unforeseen events that catch us by surprise.

In summary, I'm predicting that events in 2025 will be much like what they've been in previous years -- because there's really nothing new under the sun.

2024 in Review

As 2024 began, there were ongoing concerns about geopolitical events, high inflation, the possibility of a recession, and the November election. Headlines from major financial publications were typically negative -

- Bloomberg: *"2024 Market Outlook: Caution Prevails Amid Uncertainty."*
- The Wall Street Journal: *"S&P 500 Faces Headwinds in 2024.*
- CNBC: *"Economic Indicators Suggest a Rocky Start to 2024 for Investors."*

Despite these worries, 2024 was a surprisingly good year for stocks and the economy. Real (inflation adjusted) gross domestic product rose about 3% and inflation, as measured by the CPI, rose about 3% - its smallest increase since 2020. The unemployment rate held steady at about 4%, the Federal Reserve began lowering interest rates and corporate profits rose. The large-cap S&P 500 Index had a total return of 25.0% and notched 57 new all-time highs in 2024. Each new all-time high erased all previous declines. Yet those all-time highs caused anxiety in some investors who assumed that they indicated that stocks were overvalued and set for a sharp decline. Some people are never happy. According to data provided by Avantis Investors, the S&P 500 rose on only 58% of the trading days in 2024 – which is surprising considering the exceptional return for the year. Small-cap stocks, as measured by the Russell 2000 Index rose 11.5% last year. International stocks have not done well recently compared to U.S. stocks. In 2024, international stocks (as measured by the MSCI World ex USA Index) rose 4.7% and the MSCI Emerging Market Index rose 7.5%. The Bloomberg U.S. Aggregate Bond Index, a common proxy for the total U.S. bond market, yielded a positive but modest gain of 1.3% last year. This dispersion of returns is an example of why asset class diversification is a key component of successful long-term investing. It won't always be this good, with positive returns in all major asset classes, and it's important to appreciate the good times while they are here.

The dollar had its best year since 2015. The Bloomberg Dollar Spot Index rose more than 7%. US economic strength and relatively high interest rates have been tailwinds for the currency's value when compared to the currencies of other developed nations. A strong dollar benefits U.S. consumers with cheaper imports and more affordable international travel, which continued to climb beyond pre-pandemic volumes in 2024. However, the strong dollar hurts U.S. exporters, a complication for the U.S. as it tries to revive its industrial base. There will always be varied opinions on the merits of a strong dollar and government officials have little control over foreign exchange markets. The greenback's strength reinforces its role as the global reserve currency, to the dismay of all the "end-of-the-dollar" crazies on social media and YouTube. No other currency—sovereign or otherwise—offers the stability and liquidity of the dollar.

The Vanguard Total Stock Market Index ETF (VTI) has yielded gains in excess of 20% for five out of the past six years. That's more than we could have expected, and we'd do well to look for more modest returns in 2025. The economy, capital markets, politics and geopolitics are unpredictable. Surprises are in store for us in 2025 and the ability to tune out the noise is a skill all investors will need in the years ahead. You will never succeed as an investor if your investment decisions today are based on what you think will happen tomorrow or on what happened yesterday. The only practical way to capture the long-term equity premium that stocks have yielded is to ride out their frequent, sometimes significant, but historically always temporary declines. Easy to say, hard to do. Happy New Year.