[Lessons From a Year of Market Surprises: Reviewing the Year in Markets](http://www.wsj.com/articles/lessons-learned-from-the-year-of-surprise-1419957058)

By Jason Zweig, *The Wall Street Journal*

Updated Dec. 30, 2014 12:11 p.m. ET

It was the year that wasn’t—and another lesson in the limits of market forecasts.

In 2014, a number of experts predicted, bond prices would finally fall and interest rates would spike upward. Oil prices would rise. The stock-market stumble in September and October would turn into a rout. And the stock pickers who run actively managed mutual funds would outperform the market averages.

In The Wall Street Journal’s January 2014 economic forecasting survey, for instance, 48 of the 49 participating business economists expected the yield on the 10-year Treasury note, about 2.9% around the time of the survey, to exceed 3% by year-end, with an average forecast of 3.52%.

The economists surveyed by the Journal expected oil to end 2014 at about $95 a barrel, up from about $92 at the time of the survey.

And when fears of Ebola, among other factors, scared investors into knocking stocks down by almost 10% from September to mid-October, analysts and traders raced to declare that the decline had just begun.

What about the year that was?

Other than three days in January, the 10-year yield spent the entire year below 3%, and by late December it was around 2.2%. Had you ignored the naysayers and invested in long-term U.S. Treasury bonds, you would have earned 26.8% through Dec. 29, according to the Barclays U.S. 20+ Year Treasury Bond Index, a standard benchmark for measuring the performance of government debt with long maturities.

“It’s kind of hard to find a 100% consensus on anything,” says James A. Bianco, president of Bianco Research, an investment firm in Chicago. “But it wasn’t just 100% of economists who thought interest rates would go up. Portfolio managers, investment committees, everyone was so sure, so extreme and so entrenched in the view that bonds would be a disastrous investment.”

Oil was last sighted in the U.S. at about $54, and its epic collapse in price, foreseen by almost no one, sent the foreign-exchange value of the U.S. dollar soaring and turned the Russian ruble into wreckage.

As for the stock market, at the very moment when traders had become obsessed with the fact that the S&P 500 had just sunk below its 200-day moving average, a technical indicator that purportedly signals a coming decline, stocks turned around and went straight up, climbing to records by early December. Even after stocks faltered midmonth, the S&P 500 headed into year-end up 14%, counting dividends.

And active managers, who pick stocks for a living, got trounced, with their worst performance relative to the market in decades.

Nevertheless, the forecasting follies roll on, as economists and strategists make their latest annual round of predictions about where they think markets are headed.

As the year turns, investors should remember that they should tune out most, if not all, forecasts and stick with a game plan that will do reasonably well no matter what happens. It also is worth taking a moment to recognize that no prediction is worth following unless you know whether the forecaster is reliable.

Unlike, say, meteorologists, who predict specific outcomes at exact times and use percentages to indicate how confident they are about their forecasts, financial pundits rarely assign probabilities to their predictions and make a variety of judgment calls that can be hard to categorize.

Why, then, do so many people seem to complain that the weather forecast is inaccurate even as they bet a chunk of their life savings on a prediction from an investing pundit whose track record isn’t even traceable?

Humans don’t want accuracy; they want reassurance. The Nobel laureate and retired Stanford University economist Kenneth Arrow did a tour of duty as a weather forecaster for the U.S. Air Force during World War II. Ordered to evaluate mathematical models for predicting the weather one month ahead, he found that they were worthless. Informed of that, his superiors sent back another order: “The Commanding General is well aware that the forecasts are no good. However, he needs them for planning purposes.”

As Mr. Arrow’s story shows, people can’t stand ignoring all predictions; admitting that the future is unknowable is just too frightening. Even so, investors can become smarter consumers of financial forecasts.Websites [www.simple-forecasting.com](http://www.simple-forecasting.com/), created by prediction analysts J. Scott Armstrong of the Wharton School at the University of Pennsylvania and Kesten Green of the University of South Australia, provide research and checklists that forecasts in any field should follow to be testable and reliable.

And [www.goodjudgmentproject.com](http://www.goodjudgmentproject.com/), run by forecasting expert Philip Tetlock of the University of Pennsylvania, is a tournament that meticulously tracks the predictions of thousands of experts and amateurs world-wide. It provides feedback on accuracy and, says Prof. Tetlock, prevents forecasters from “misremembering their own predictions.”

Anyone can enter the tournament; sign up yourself. Learning from your own mistakes might help you avoid falling for the errors of the experts.

**Write to** Jason Zweig at intelligentinvestor@wsj.com