mint

Devina Mehra: Take 2025 stock predictions with a bucket of salt

Devina Mehra | 2 January 2025

So why is the prediction pattern the way it is? You do not lose your job or have egg on your face for saying what everyone else is saying.

SUMMARY

It's super-easy to make forecasts but nobody really knows how things will turn out. Trying to forecast what's not just unknown but can't be known is a pointless exercise. Be wary of the numbers being thrown around.

The year has started and you have all the Nifty (or Nasdaq/S&P 500) forecasts for end 2025 from every stock-market expert, securities house and talking head on TV. Keep them safe to check in December 2025. For now, you should check what these experts told you a year ago!

The truth? It's in the 'Objective Ignorance' category, as explained in *Noise* by Daniel Kahneman, Cass R. Sunstein and Olivier Sibony.

Index predictions are only one example of humans forecasting things which are not just unknown, but cannot be known. Yet, they are made with huge conviction in January and Diwali time.

"We maintain unchastened willingness to make bold predictions about the future from little useful information," as Kahneman says.

I understood this phrase only in 2023, but I have never given index projections for the last three decades that I have been in the market because I intuitively understood that it was impossible to predict market moves.

Interestingly, *Bloomberg* recently collected the data of index estimates versus their actual moves for the US market, where it has been available in a structured form for the last several decades.

These are from venerable banks and Wall Street firms like Goldman Sachs, Bank of America/Merrill Lynch, Citigroup, HSBC, Deutsche Bank, etc., exactly the sort of organizations you listen to very carefully when they appear on your TV screen, thinking that they have great insights into global markets.

In an article titled 'Wall Street's Forecasts are Out for 2025: Be Dubious', *Bloomberg* finds that, on average, each of these large organizations are off in their projections by about 15 percentage points. That means if they say that the market will move up 10%, the real move would have been plus 25% or minus 5%.

In plain English, the projections don't tell you anything at all. Everyone is equally clueless, but they are in the media and speak with great authority. But confidence is not equal to competence.

Most of the time, global strategists estimate that the S&P 500 would move between 0 and 10% in the year. In reality, in the last 97 years for which the data is available, the annual move for it has been in this range only 14 times.

So why is the prediction pattern the way it is? Very simple. You do not lose your job or have egg on your face for saying what everyone else is saying.

Let's say strategist A predicts that the market would move up by 20% whereas everybody else is in the 7-10% range. Now if the market falls 10%, A will look like a fool. It is safer to be wrong along with everyone else.

Another interesting aspect of projections is that it is arguably easier to predict how the market would compound over a somewhat longer period, say 10 or 20 years, than it is to predict how it would do over one year.

Paradoxically, for companies, the predictability is the other way round. An analyst can have greater visibility on what will happen to a company's revenues, profits and to an extent its stock price over one or two years, but can be totally off on 10- or 20-year estimates.

As far as longer-term company or stock projections are concerned, the most deadly weapon in the financial world is the Excel spreadsheet, which makes it seductively easy to put out any kind of (fantasy) projections and sell stories based on that.

You see stuff like this from analysts and fund managers: XYZ company will grow earnings at 20% per annum for the next 25 years, which means the profit will be up a hundred times. Then let's key in a fancy PE multiple on that profit and *voila*, you can come up with any number you want for the projected share price.

No basic checks exist for these 'estimates'—what percentage will it be of the entire industry if its revenues grow at that rate; what proportion of GDP or total market cap of the country; most importantly, has there been even one company in history that compounded profits 20% every year for 25 years?

Let alone that, ask people making these estimates to name the companies that have shown even 1% profit growth every year for the last 25 years. You will find that it's a grand total of zero companies.

Among the nearly 5,000 listed companies in India, HDFC Bank is the only one which showed any profit growth every year even for 20 years. Dragging a formula cell in excel is super easy. Actual execution by the company is near impossible.

Of course, when the results don't keep up with fanciful estimates for either the index or a company, a whole bunch of factors can be blamed. As always, success is attributed to great skill and failure to bad luck or some external villain.

The author is chairperson, managing director and founder of First Global, an Indian and global asset management company, and author of the forthcoming book 'Money, Myths and Mantras: The Ultimate Investment Guide'. Her X handle is @devinamehra