



INTEGRIS  
WEALTH MANAGEMENT

**PREDICTABILITY OF THE FUTURE - PART 1**  
**Personal Investing Series**  
**Article 2**

In the Simplifying Your Investment Life article I made the bold statement that the future is unpredictable, and as a consequence, the average investor can simplify his/her life by disregarding any investment advice that is based upon a prediction of the future. (I'll talk about what your investment decisions should be based upon in subsequent articles).

How many times has someone said "it is obvious" or "everyone knows" that some investment was going to go up in value? I have often heard this. However, that notion betrays a fundamental lack of understanding of how prices are set in a marketplace. If it were obvious to investors that something was going to be worth more tomorrow than it is today, today's price would not remain where it is, it would very quickly gravitate to tomorrow's price.

Let me illustrate with a simple example. Let's say a certain investment is priced at \$100 today. And let's further assume that "it is obvious" that it is going to be worth \$110 tomorrow morning. Given this situation, what would you do? Well most people would opt to invest as much as they possibly could at \$100 so as to earn a quick \$10 profit. However, there is a problem. Since "it is obvious" it will be worth \$110 tomorrow morning, who would be crazy enough to sell it today for \$100? Nobody. Since price is the level at which both buyers and sellers are willing to trade, the investment will basically trade at \$110, not tomorrow but right now.

The first thing I want you to understand is that if something is easily knowable, then it is not possible to profit from the knowledge. Remember from the example above, the only way someone can profit from knowledge is to know something no one else knows. If you really "know" something, then eventually that knowledge will become evident to everyone, at which point you will profit. If your "knowledge" never becomes common knowledge, then the price will not change to reflect that knowledge and you will not profit from it.

The average investor can never have that kind of knowledge, at least not consistently. You can guess, you can have a "gut feel", but this should not be mistaken for real knowledge. And if you trade in and out of investment positions based upon "gut feelings" and guesses, the result will be lower returns due to trading costs and increased tax liability. Taxes will increase because every time you trade you create a

“taxable event”. This means that if there is a gain, you have a pay tax on it. On the other hand, if you hold a position that has a profit, no tax is due until the position is sold. The result is that, in the meantime, money that will eventually go to the IRS is working for you.

If you believe the future is unpredictable, then you can simplify your investing life by avoiding advice based upon a prediction. Furthermore, predictions encourage investors to trade in and out of positions in search of higher returns. Not only are you likely to be disappointed in that search, because it is so hard to have knowledge no one else has, but you will reduce your return due to higher trading costs and increased taxes.

The question for the next article is the following: if the average investor is unlikely to have knowledge from which he or she can profit, is it possible for a savvy investment pro to do so on your behalf?

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