

MONONGAHELA CAPITAL MANAGEMENT

PERCEPTIONS

4 th Quarter, December 31, 2019			
	12/31/19	% Change 4 th Quarter	% Change Year to date
Dow Jones Industrials	28,538.44	6.67 % *	25.34 % *
S & P 500	3,230.78	9.07 % *	31.49 % *
Russell 2000	1,668.47	9.94 % *	25.52 % *
BC Aggregate BD Index		0.18 %	8.72 %
10 YR Treasury Yield	1.92 %		
30 YR Treasury Yield	2.39 %		

* Includes reinvested dividends

The Peculiar Blindness of Experts

At this time of the year, and now at the beginning of a new decade, a parade of experts and forecasters trot out their economic/market predictions. Over the last forty-one years we have observed countless market forecasts by well-known “experts” and tracked their accuracy. It is remarkable how many errors are made in both direction and magnitude. For example, the universal wisdom among interest rate gurus at the end of 2018 was that interest rates would rise in 2019. Forecasters had observed that rates began to rise midway through 2018 and extrapolated that rates would continue to rise into 2019. Interest rates reversed their ascent in late 2018 and began a historic decline, which propelled the bond and stock markets to spectacular gains in 2019. It is curious to consider why these well-educated and highly compensated specialists are so often and consistently wrong in their predictions.

The answer to that puzzling question might be found within the pages of a book written by David Epstein and released in May of 2019 titled *Range: Why Generalists Triumph in a Specialized World*. In the June issue of *The Atlantic*, the same author penned an article titled “The Peculiar Blindness of Experts,” an adaptation of his book. In the article, Epstein presents a well-reasoned argument as to why experts in a given field are so inept at predicting the future in their fields of expertise. Epstein suggests that one can have reliable insight into the future; however, this reliable

perception requires a different style of thinking. This different style of thinking is rare among those experts who believe that their expertise provides special insight as to the future.

The Epstein article promoted the idea that highly specialized experts tended to be quite dogmatic in their thinking. These narrowly focused experts found it difficult to see the merit in any view that might conflict with their own view. Ideally, one would expect that experts with opposing viewpoints would challenge each other to scrutinize all possibilities to see if there might be some merit in the opposing view. In the real world, just the opposite happens. Experts tend to become even more stubbornly entrenched in their own position when challenged.

In the *Atlantic* article, Epstein detailed a study launched by Philip Tetlock, currently the Annenberg University Professor at the University of Pennsylvania. The study included 284 highly educated experts who averaged more than twelve years of experience in their specialties. The experts were asked to provide specific probabilities of future events. The study extended over 20 years and consisted of 82,361 such estimates. As time would tell, the experts were poor prognosticators, both short term and long term. Epstein's article explained that "When the experts declared that future events were impossible or nearly impossible, 15 % of them occurred nonetheless. When they declared events to be a sure thing, more than one-quarter of them failed to transpire." Even when faced with such dismal performance, many experts failed to see any flaws in their thinking.

Interestingly, one subgroup of scholars was much more successful in forecasting than others. The members of the subgroup were not vested in a single discipline, but rather integrated arguments from all viewpoints including apparently conflicting views.

It is a hallmark of our research to be open minded, to allow our ideas to be tested. We emphasize the analysis of individual stocks and bonds as opposed to forecasting macro events, like the direction of interest rates, the price of energy or the changing winds of world politics. While the directional calls are important, more value is added to our portfolios by focusing on individual security analysis. Warren Buffett succinctly summarized our view: "I make no attempt to forecast the market – my efforts are devoted to finding undervalued securities."

Once your needs and objectives are understood, we construct a diversified portfolio of stock and fixed income investments to match your investment profile. Your portfolio, like those of all our clients, is unique. It is the portfolio of diversified individual assets that allows us to manage as a generalist and minimize the inherent expert bias we all have.