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WHY TO AVOID NEW YEAR 'STOCK PICKS'

Open the personal finance pages of newspapers around this time of year and chances are you'll find a number of stock market pundits giving their 'tips' for hot stocks in 2012. These pundits, may or may not have a financial interest in people buying some of the stocks they mention, however, they can be pretty confident that, in twelve months time, no one will have kept their predictions from a year ago, much less take them to task for any hot stocks that, in fact, turned out to be feather dusters.

In volatile times such as these it's only natural for investors to seek guidance about the future. And who better to provide a well-informed opinion than someone who has been educated and trained in this specialist field and who has worked for years, perhaps decades, managing other people's wealth?

It's at this point that we need to be very careful. The kind of expert who can help us is indeed a qualified professional – but not all experts are the same. The kind of expert we should *not* be listening to is the variety that, unfortunately, most often catches our attention.

Now don't get me wrong. Everyone is entitled to their opinion – including the experts. But to illustrate the dangers of setting too much store by what one person says, let me quote the views of three men, each of whom were clearly expert in their own field:
'There is no reason anyone would want a computer in their home," Ken Olson, President, Chairman and Founder of Digital Equipment Corporation in 1977. "Airplanes are interesting toys but of no military value," Marechal Ferdinand Foche, Professor of Strategy, Ecole Superieure de Guerre, France. And closest to home, "Stocks have reached what looks like a permanently high plateau," Irving Fisher, Professor of Economics, Yale University, 1929. Yes, and we all know what happened soon after the good professor said that.

The point is that just because you're an expert doesn't mean you can see the future. Your guess may be better informed than other people's, but it is still a guess. And quite apart from the guesswork, there's another reason not to listen to stock market pundits: their predictions should not be used to guide the investment decisions of individuals about whose personal financial affairs they know nothing.

The kinds of experts we *should* be seeking out are those who are properly qualified and accredited wealth management professionals. Ideally they will charge for their services on the same 'fee for service' basis as accountants or lawyers, thereby side-stepping the conflict of interest problems inherent in commissions. They will take the time to properly understand our particular financial circumstances, objectives and risk profile and will develop a properly formulated investment strategy tailored to our particular needs. Most of all, they will understand the cyclical nature of asset classes of all kinds and they will be available, in times like these, to keep us true to our long term goals – because as investors, rather than traders or speculators, our time horizon should always be at least five to seven years.

Seen from this longer term perspective, the dramatic troughs of recent months appear somewhat less frightening, and the massive volatility we are experiencing, less relevant. Instead of getting caught up in panic about the latest 'hot stock' predictions, we can rest easier in the knowledge that we're in this for the long haul, and that markets, just like the seasons, follow an on-going pattern.

Expert advice is indeed a wonderful thing, and can help us sleep more soundly at night. The important thing is to be very careful what experts we listen to.

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