



# **The Iliad, Hurricanes & Economic Forecasts**

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# Agenda

1. Bad Forecasts & My Forecasts
2. Coin Flipping as Insight
3. Hurricanes & The Iliad
4. An Economic Apology in 3 Parts
5. Problem Resolution Optimization

*"It is far better to foresee even without certainty than not to foresee at all."  
- Henri Poincaré*

# Prediction ↔ Forecast

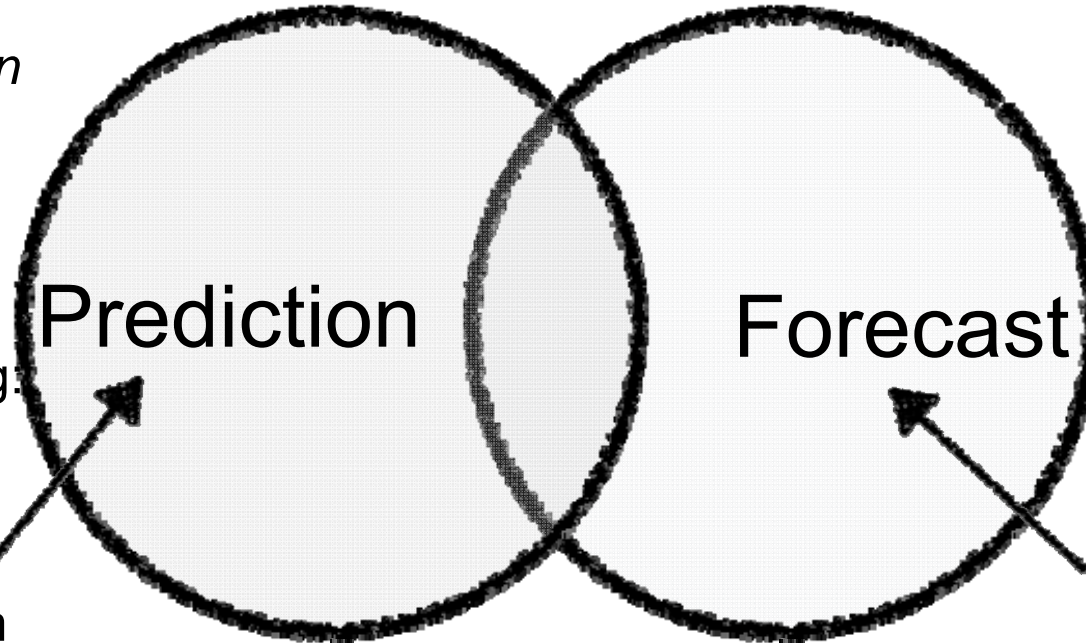
## noun

a thing predicted; a forecast: *a prediction that the Greeks would destroy the Persian empire.*

• the action of predicting something: *the prediction of future behavior.*

## ORIGIN

mid 16th cent.: from Latin *praedictio(n-)*, from *praedicere* 'make known beforehand' (see [predict](#)).



## Verb

(past and past participle **forecast** or **forecasted**) [*with obj.*]

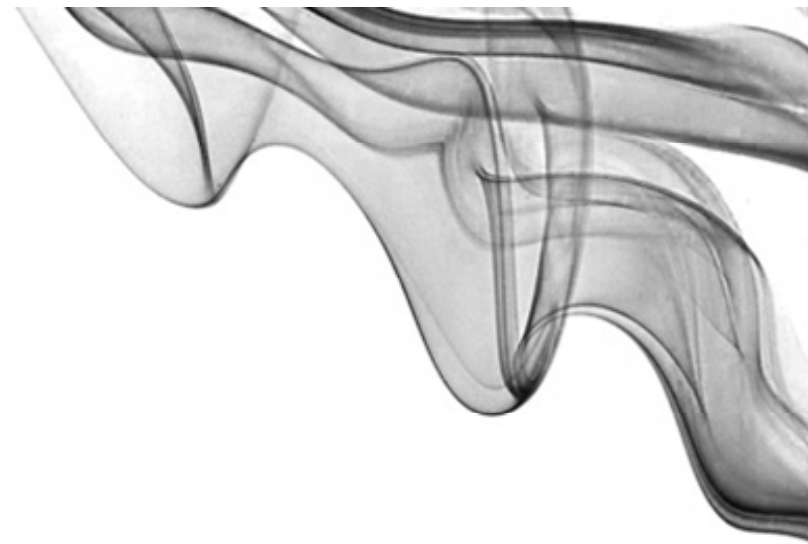
predict or estimate (a future event or trend): *rain is forecast for eastern Ohio* | [*with obj. and infinitive*]: *coal consumption is forecast to increase.*

## noun

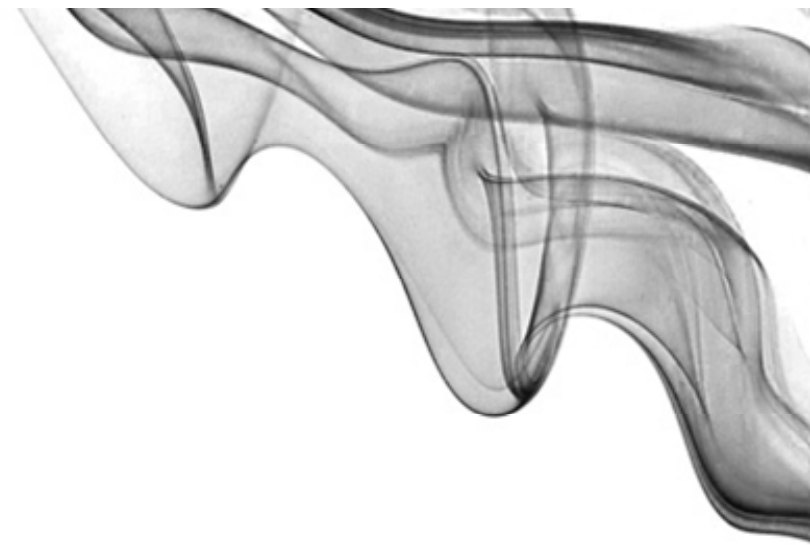
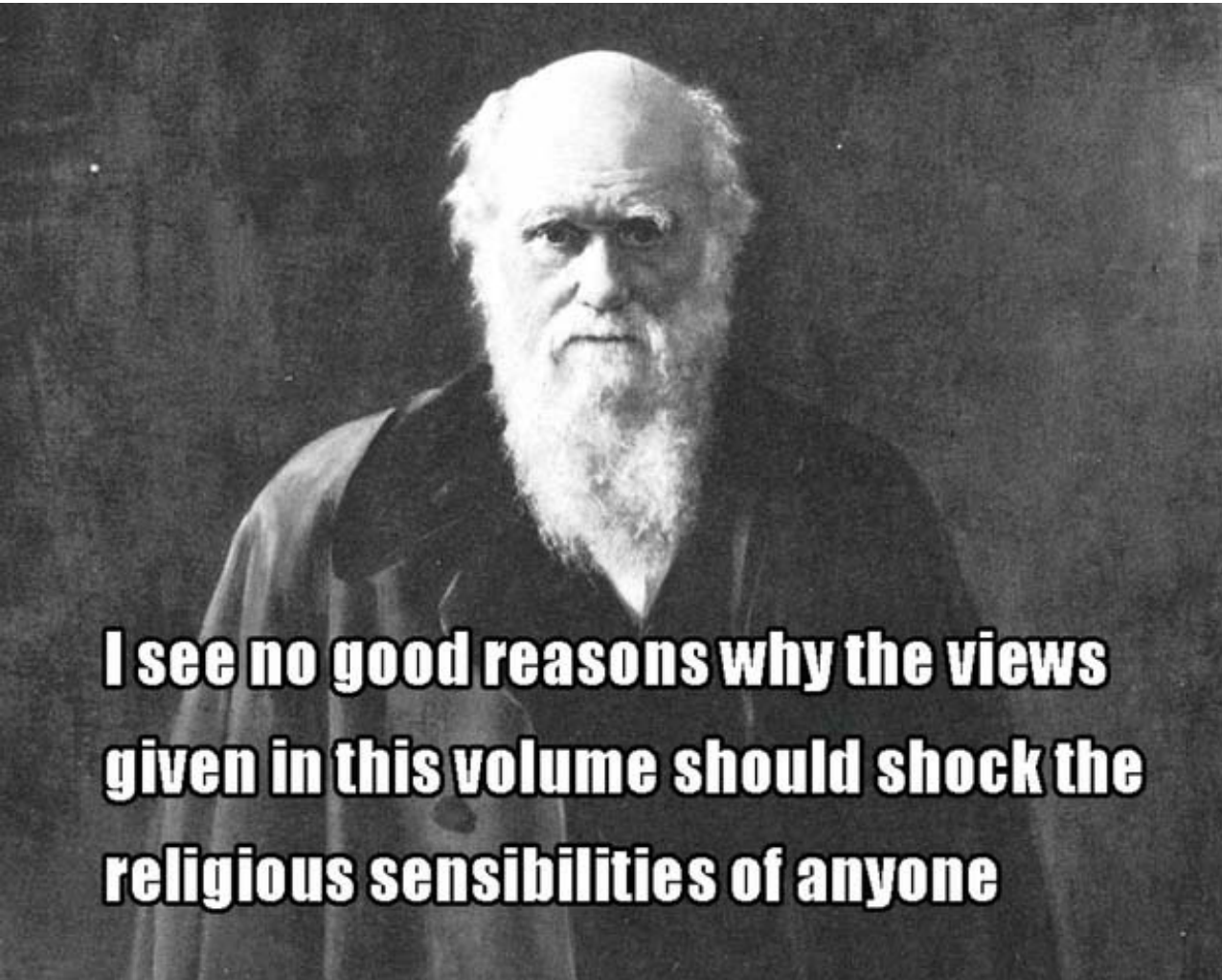
a prediction or estimate of future events, especially coming weather or a financial trend.

forecaster |'fôr,kastər| noun: a person who predicts or estimates a future event or trend: economic forecasters are predicting a downturn.

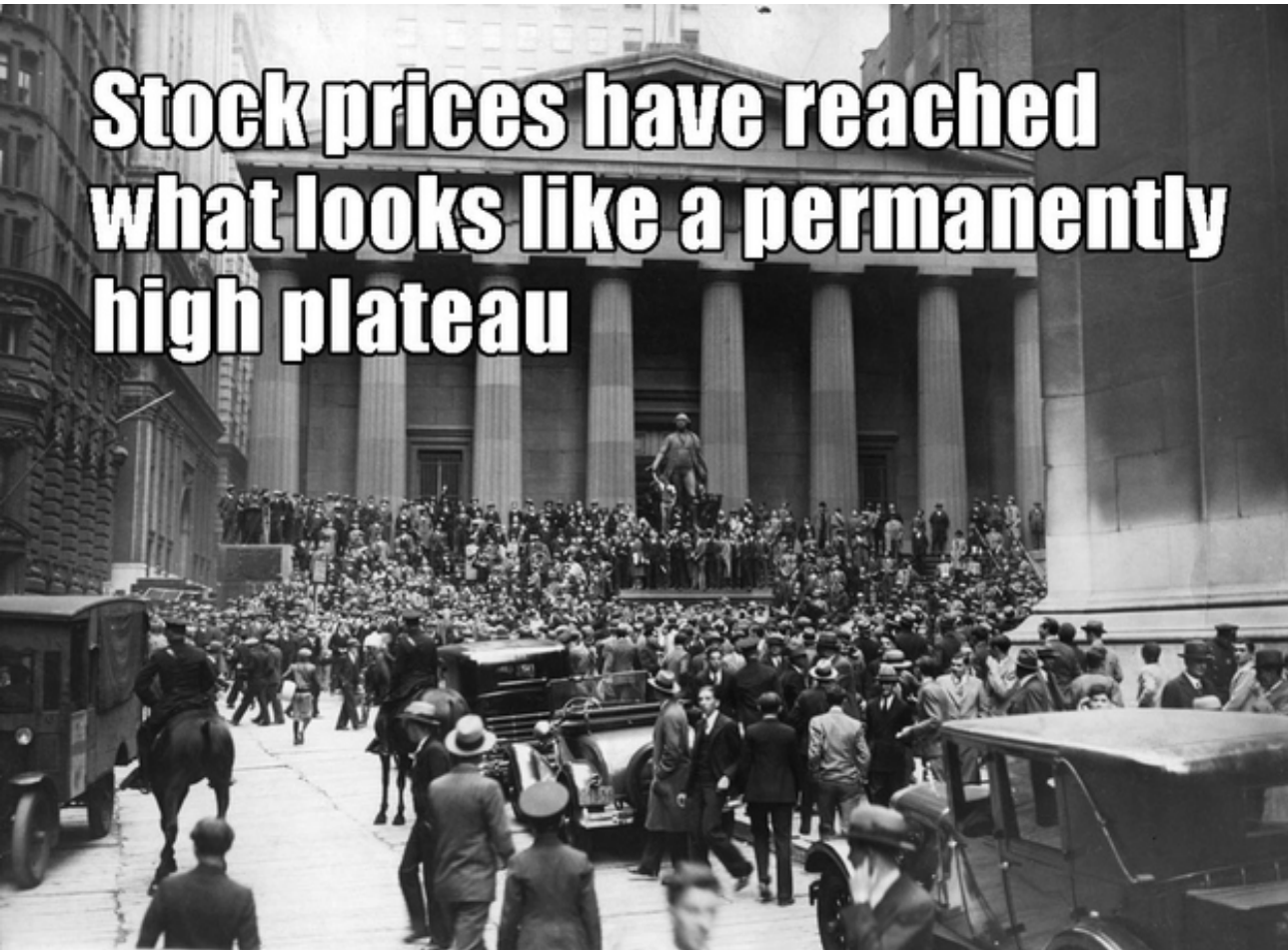
**Rock n' roll? It will be gone  
by June**



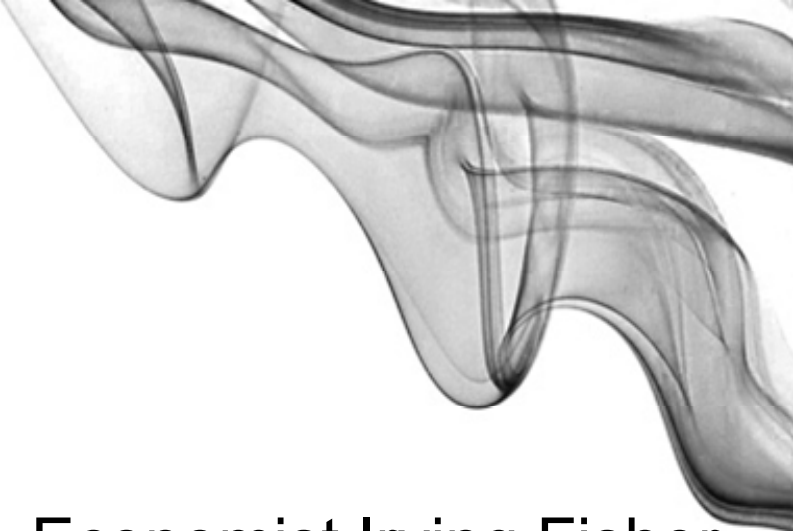
Variety  
magazine,  
1955.



Charles Darwin, writing  
in the foreword to *On  
the Origin of Species*,  
1859.



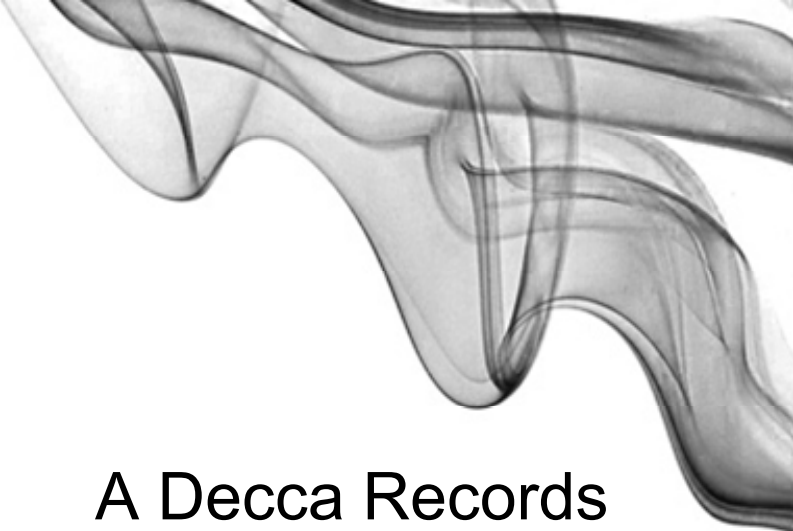
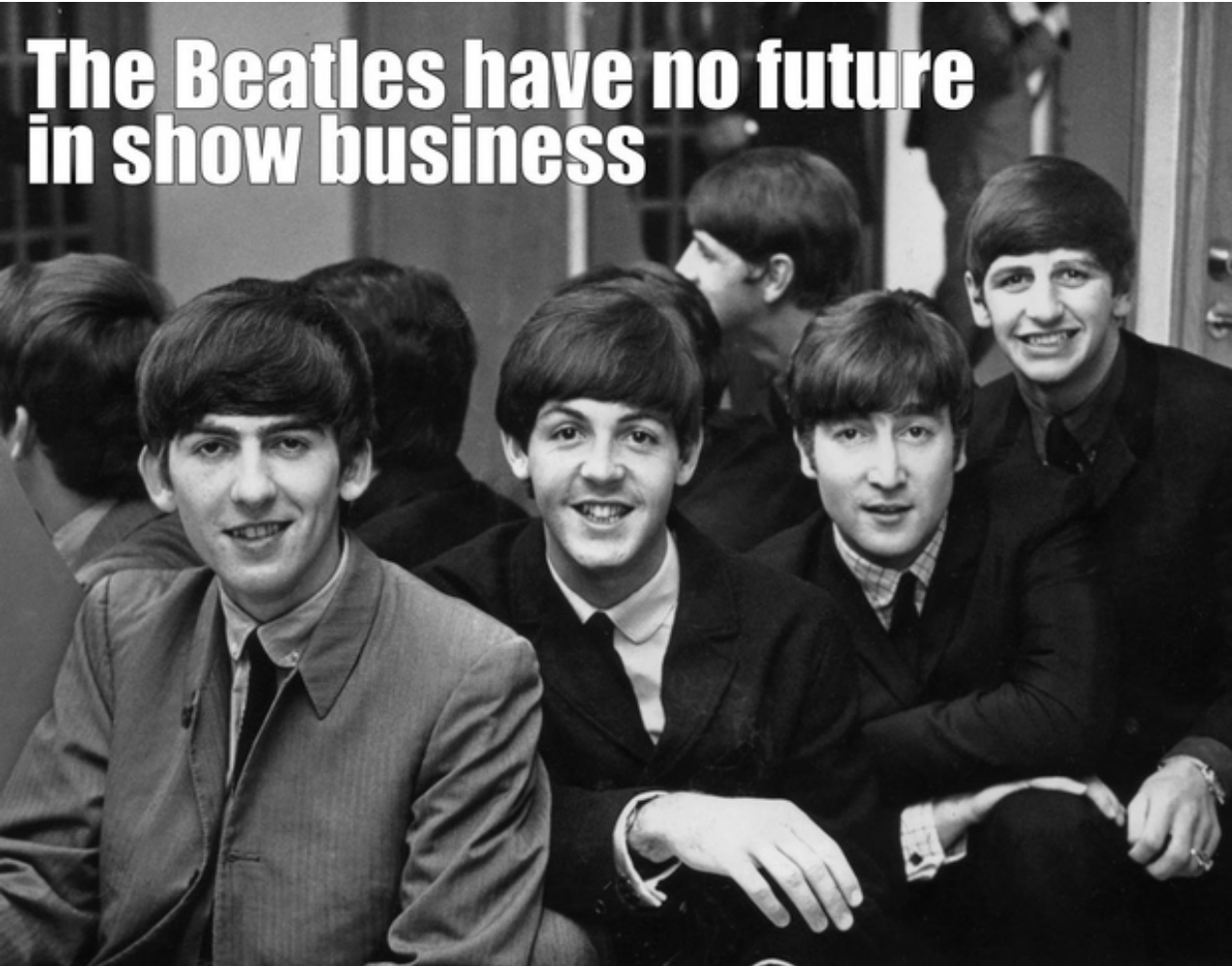
**Stock prices have reached  
what looks like a permanently  
high plateau**



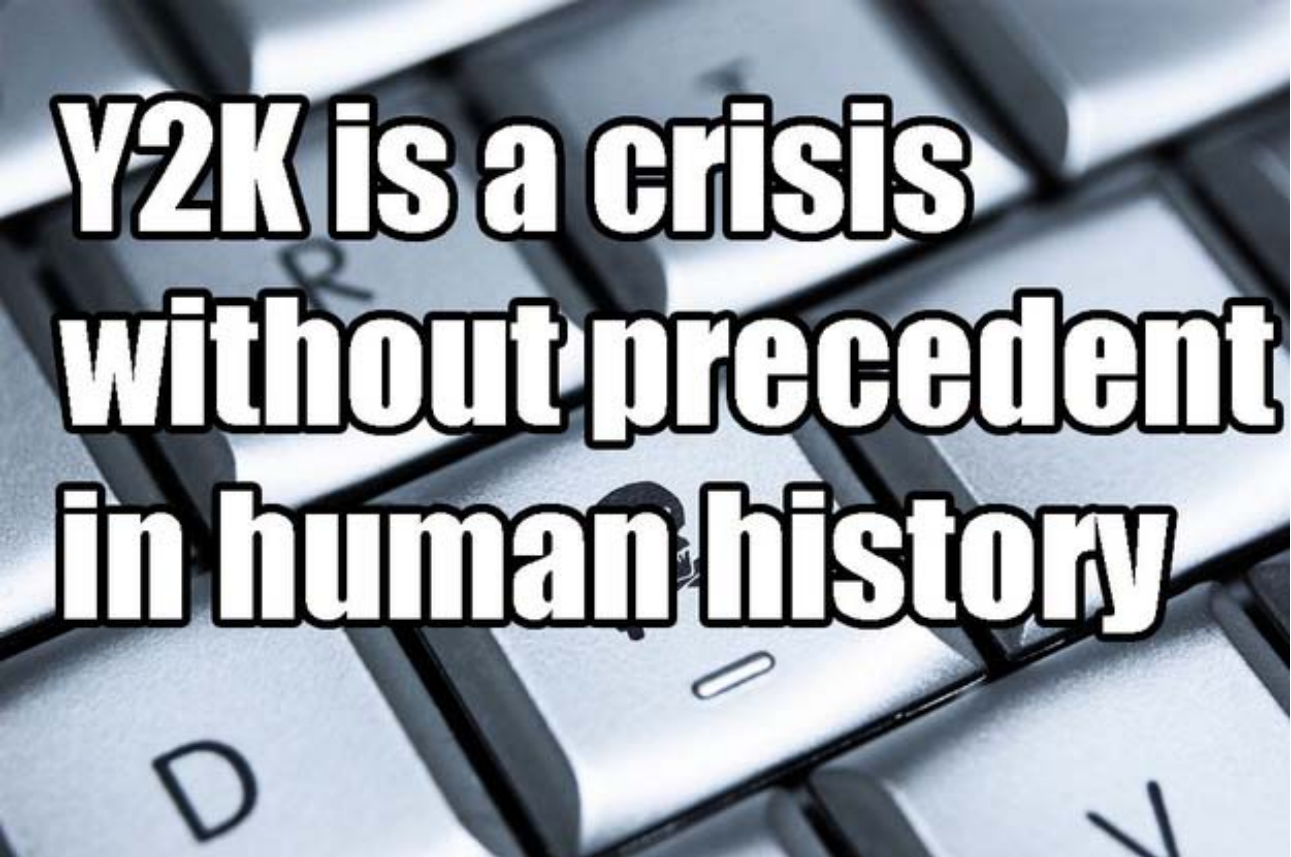
Economist Irving Fisher  
in October 1929, three  
days before the stock  
market crash that  
triggered the Great  
Depression.



# The Beatles have no future in show business



A Decca Records executive told the band's manager, Brian Epstein, following an audition in 1962. He continued: "We don't like your boys' sound. Groups are out. Four-piece groups with guitars, particularly, are finished."



**Y2K is a crisis  
without precedent  
in human history**



Byte magazine editor  
Edmund DeJesus, 1998.



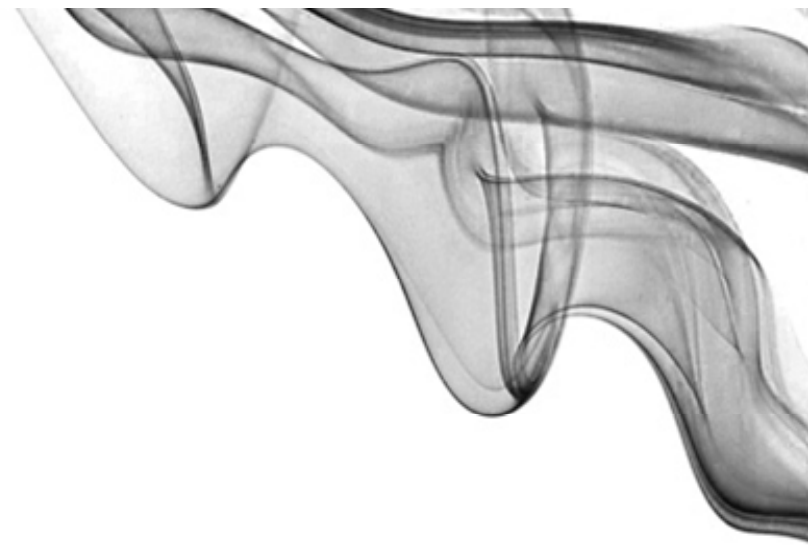
**Next Christmas  
the iPod will be  
dead, finished,  
gone, kaput**



Alan Sugar, 2005.



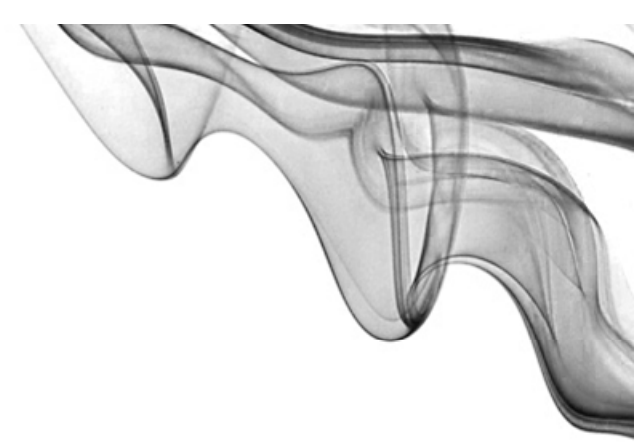
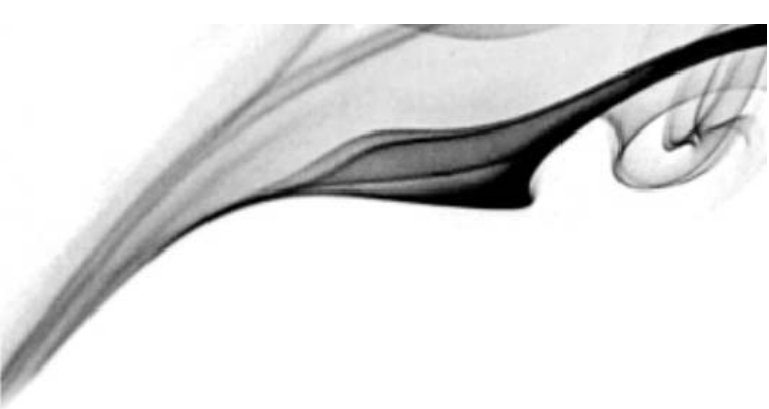
**There's no chance that the iPhone is going to get any significant market share. No chance**



Microsoft CEO Steve Ballmer, 2007.

# I Have a Prediction





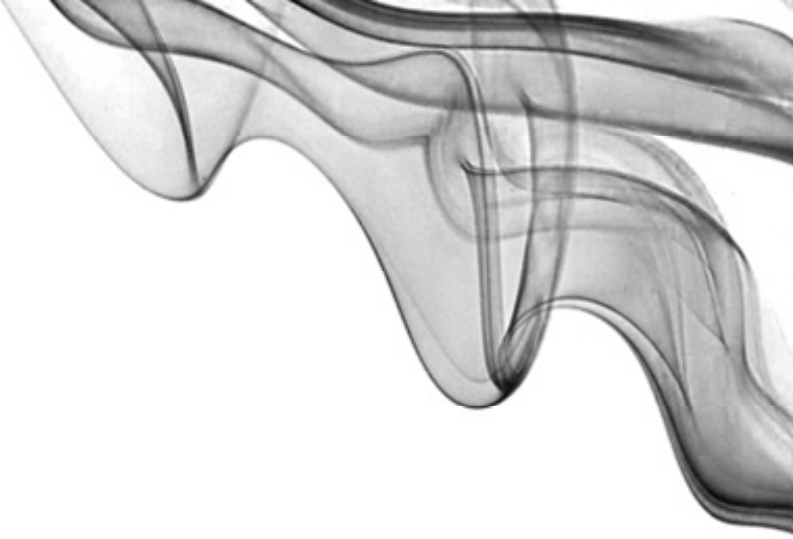
At this point in the presentation I demonstrate my amazing ability to read minds and predict your answers to two questions.

Hope to see you there in person.

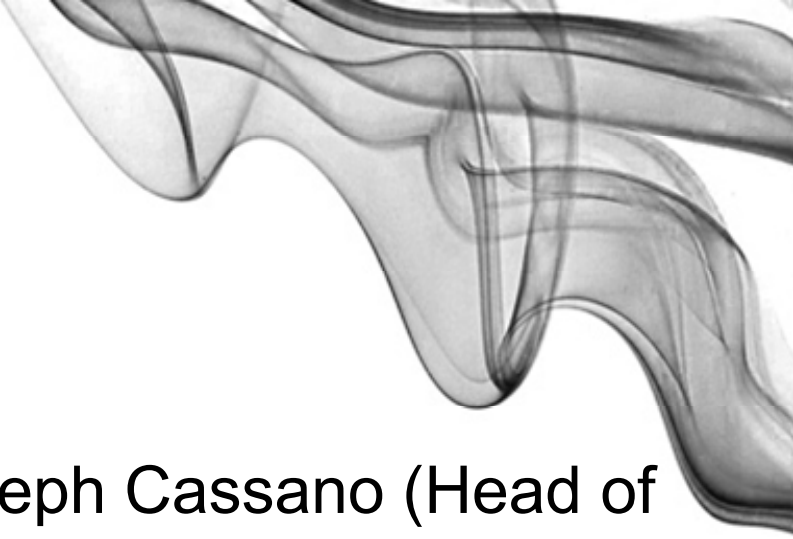


*"The only function of economic forecasting is to make astrology look respectable." - John Kenneth Galbraith*

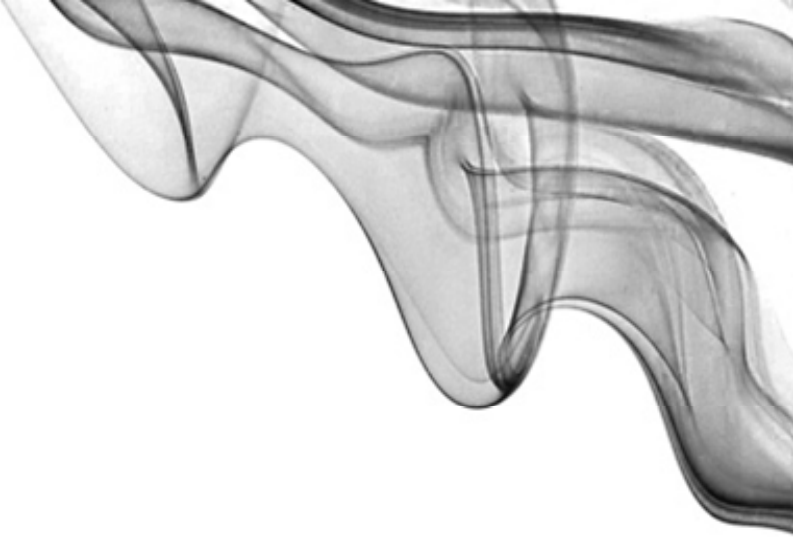
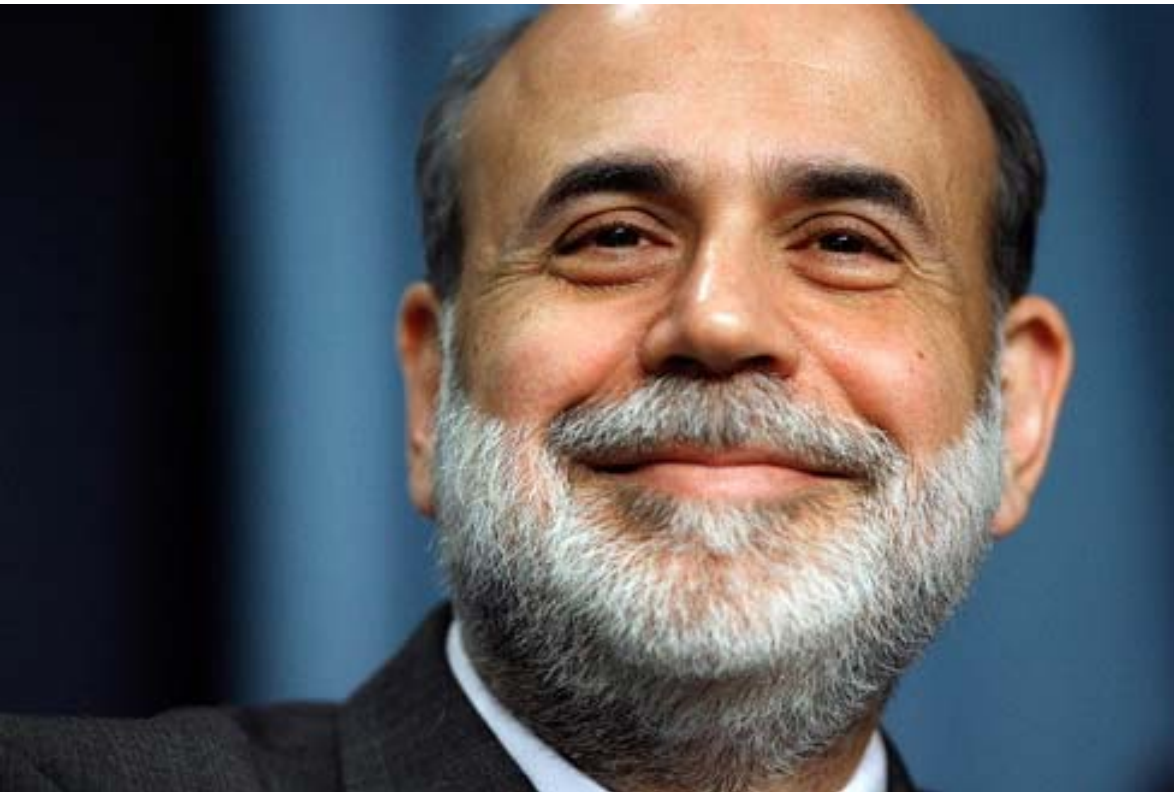




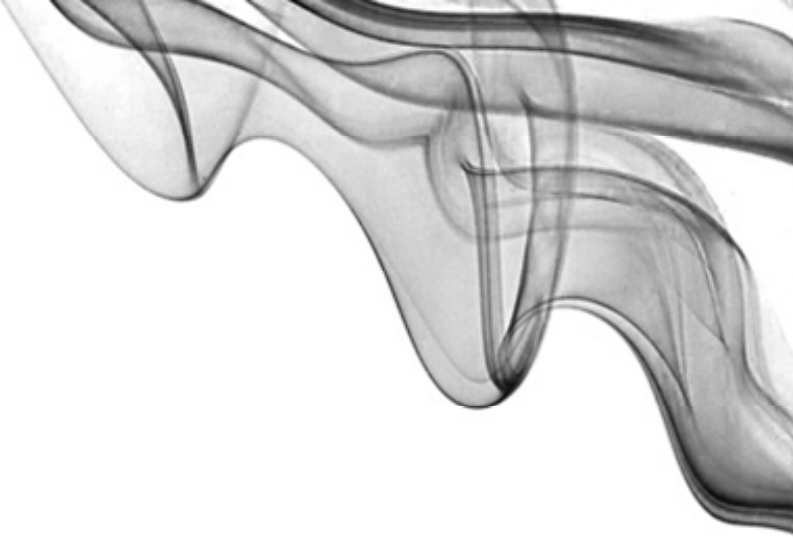
Franklin Raines (CEO of Fannie Mae), 10th June 2004: "These subprime assets are so riskless that their capital for holding them should be under 2 percent."



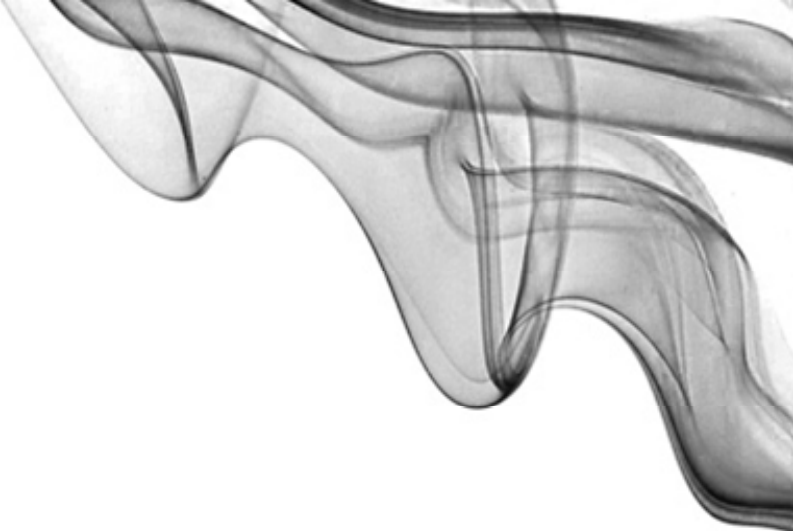
Joseph Cassano (Head of Financial Products at AIG), 2007: "It is hard for us, without being flippant, to even see a scenario within any kind of realm of reason that would see us losing one dollar in any of these Credit Default Swap transactions."



Ben Bernanke, 10th January  
2008 - "The Federal Reserve  
is currently not forecasting a  
recession."

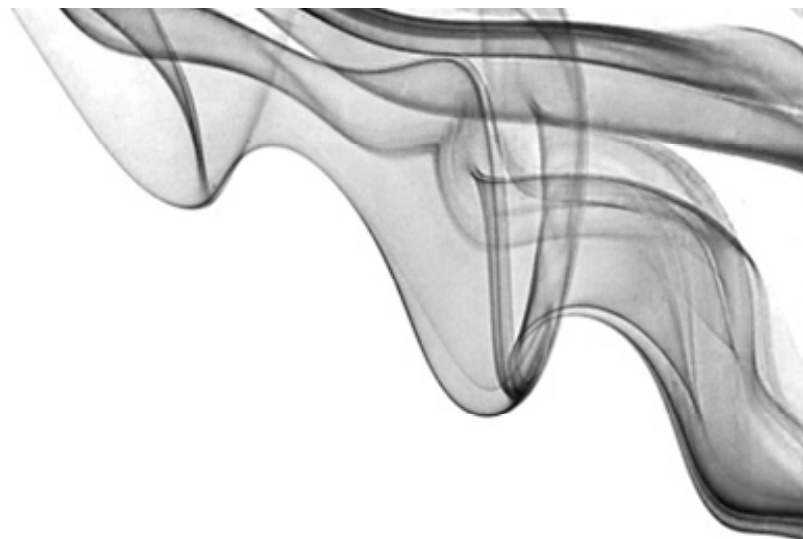


Georges W. Bush, 15th  
July 2008: "We can have  
confidence in the long-  
term foundation of our  
economy... I think the  
system basically is sound.  
I truly do."



Donald Luskin (US investment guru), 14th September 2008: "Anyone who says we're in a recession, or heading into one—especially the worst one since the Great Depression—is making up his own private definition of 'recession'."





In December 2007, Goldman Sachs chief investment strategist Abby Joseph Cohen made a Fisher-like prediction of her own. She suggested the S&P 500 would hit 1,675 by the end of 2008, a climb of 14% — it actually ended below 900.

# Coin Flipping as Insight



Named by *Fortune*  
ONE OF THE SMARTEST BOOKS OF ALL TIME

*F O L E D*

*BY*

*R A N D O M N E S S*

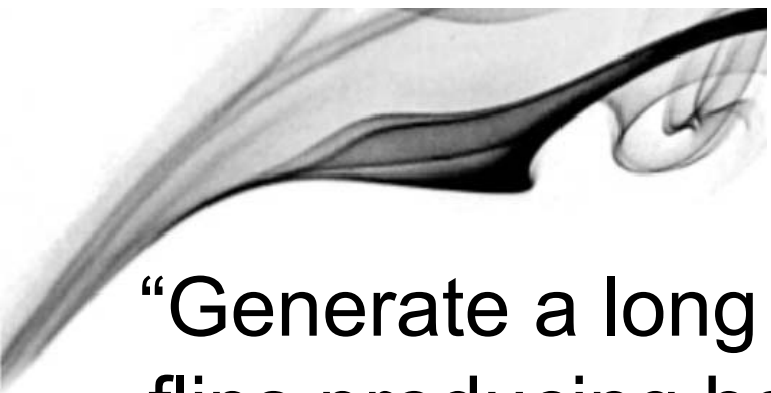
*The Hidden Role of Chance  
in Life and in the Markets*

NASSIM NICHOLAS TALEB

SECOND EDITION, UPDATED BY THE AUTHOR

Are Coin Flips Really Random?

Adler, David E. "A Reliable Randomizer, Turned on Its Head." *The Washington Post*, August 2, 2009.  
<http://www.washingtonpost.com/wp-dyn/content/article/2009/07/31/AR2009073104170.html>



“Generate a long series of coin flips producing heads and tails with 50% odds each and fill up sheets of paper. If the series is long enough you may get eight heads or eight tails in a row, perhaps even ten of each. Yet you know that in spite of these wins the conditional odds of getting a head or a tail is still 50%.”

Named by *Fortune*  
ONE OF THE SMARTEST BOOKS OF ALL TIME

# FOOLED

BY

# RANDOMNESS

*The Hidden Role of Chance  
in Life and in the Markets*

NASSIM NICHOLAS TALEB

SECOND EDITION, UPDATED BY THE AUTHOR

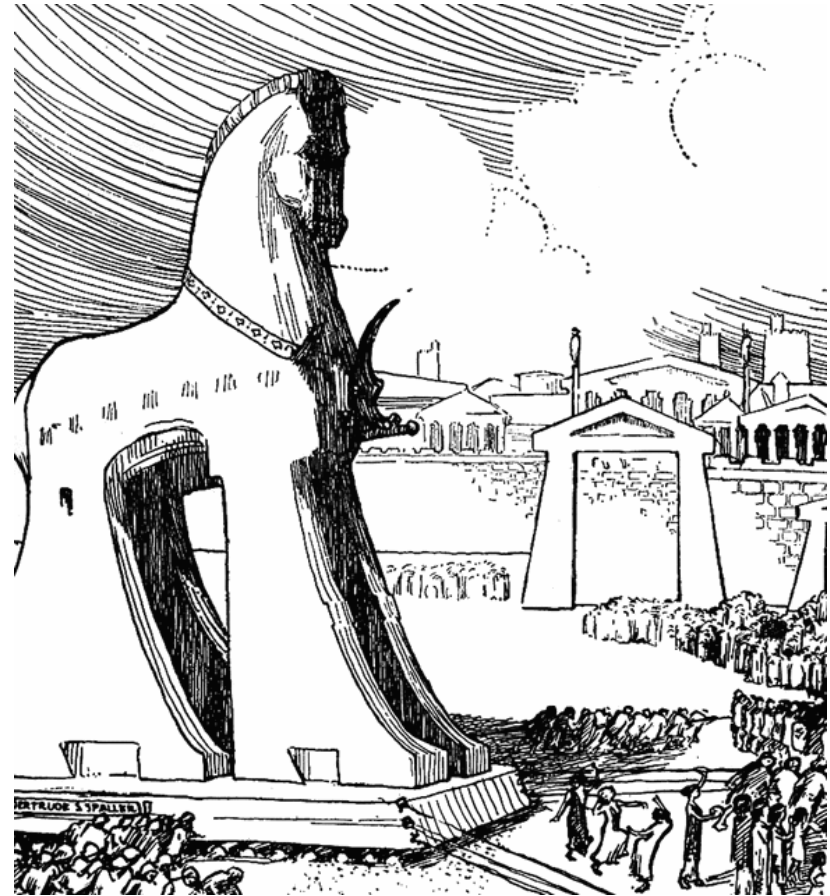
Taleb, Nassim Nicholas (2008-10-06). *Fooled by Randomness: The Hidden Role of Chance in Life and in the Markets* (Incerto) (Kindle Locations 2813-2815). Random House Publishing Group. Kindle Edition.



# The Flip Side of the Coin

“DR. THEODORE P. HILL asks his mathematics students at the Georgia Institute of Technology to go home and either flip a coin 200 times and record the results, or merely pretend to flip a coin and fake 200 results. The following day he runs his eye over the homework data, and to the students' amazement, he easily fingers nearly all those who faked their tosses.”

# Hurricanes & The Iliad



Technically the Trojan Horse is not mentioned in The Iliad  
Trojan Horse. (2016, January 6). In Wikipedia, The Free Encyclopedia. Retrieved 19:02, January 10, 2016, from [https://en.wikipedia.org/w/index.php?title=Trojan\\_Horse&oldid=698496365](https://en.wikipedia.org/w/index.php?title=Trojan_Horse&oldid=698496365)



# Hurricane Rita 9/19/05



# Hurricane Rita 9/22/05



# Hurricane Rita Final



# Hurricane Ike 9/6/08





# Hurricane Ike 9/10/08





# Chalcas the wise

“...Chalcas the wise, the Grecian priest and guide,  
That sacred seer, whose comprehensive view,  
The past, the present, and the future knew...”



# Wall Street Journal Economic Forecast Survey

## Economic Forecasting Survey

The Wall Street Journal surveys a group of more than 60 economists on more than 10 major economic indicators on a monthly basis.

### Economic Indicators

### 10 Year Note

Actual
  Estimates
  12 yr.
  8 yr.
  4 yr.

GDP (quarterly)

GDP (annual)

CPI

Oil Prices

Unemployment

Nonfarm Payrolls

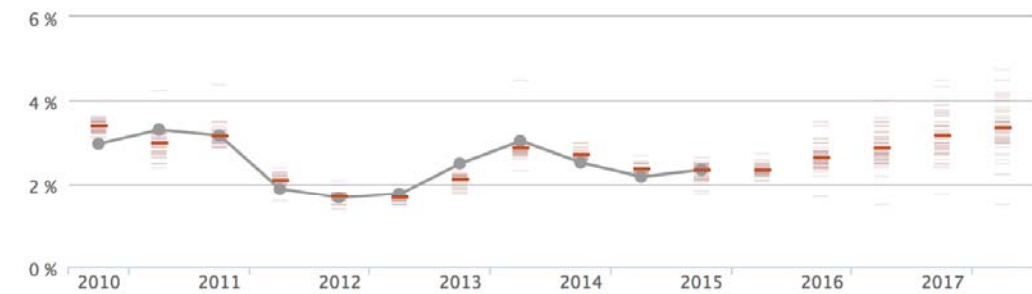
Federal Funds Rate

10 Year Note

Home Prices

Housing Starts

Recession Probability



Share view: [f](#) [t](#)  
Embed

### 10 Year Note

Actual (Jun. 2015)

**2.34%**

Projected: Dec. 2015

**2.33%** ▼

Projected: Jun. 2016

2.63%

Projected: Dec. 2016

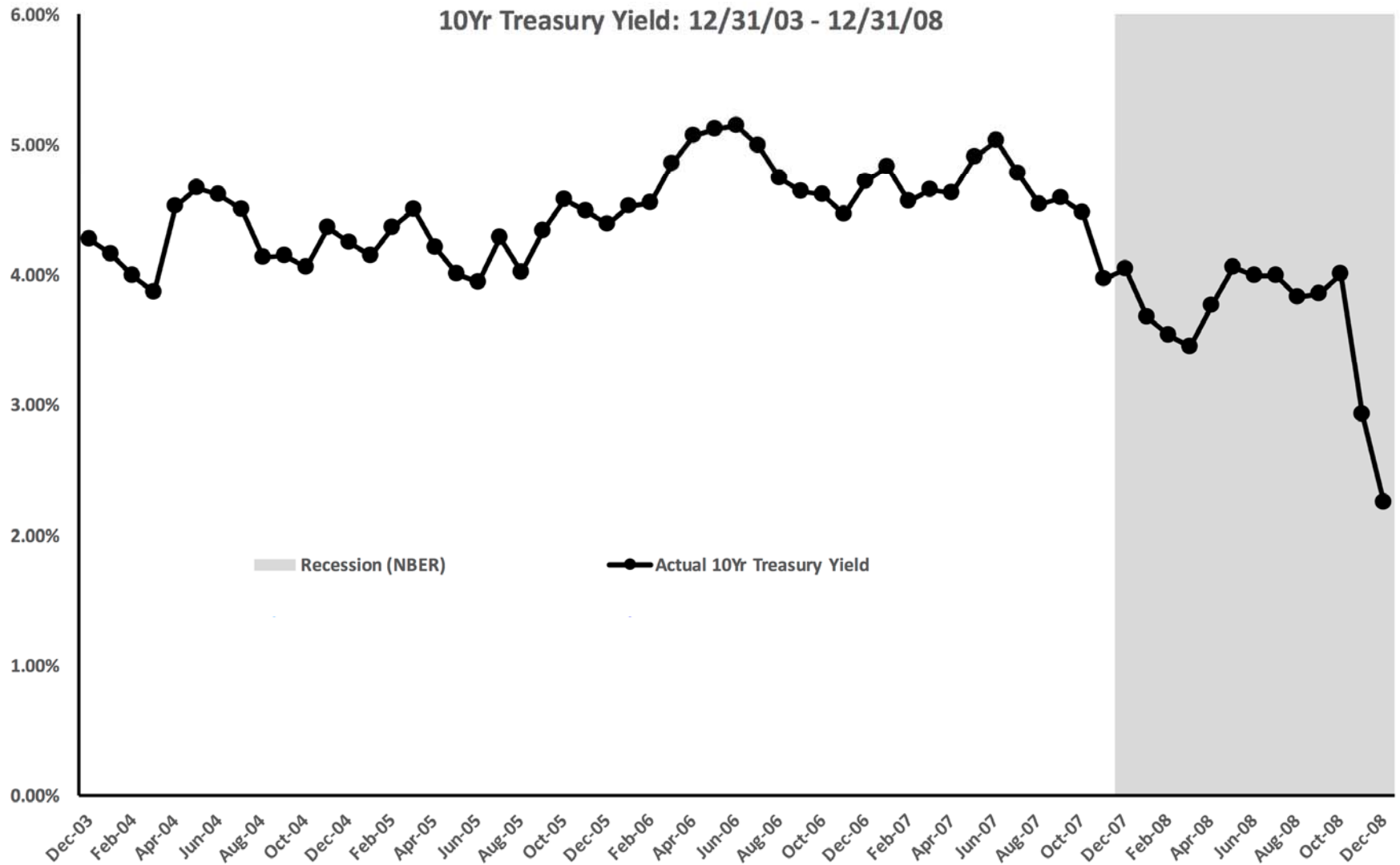
2.86%

Download data for December 2015

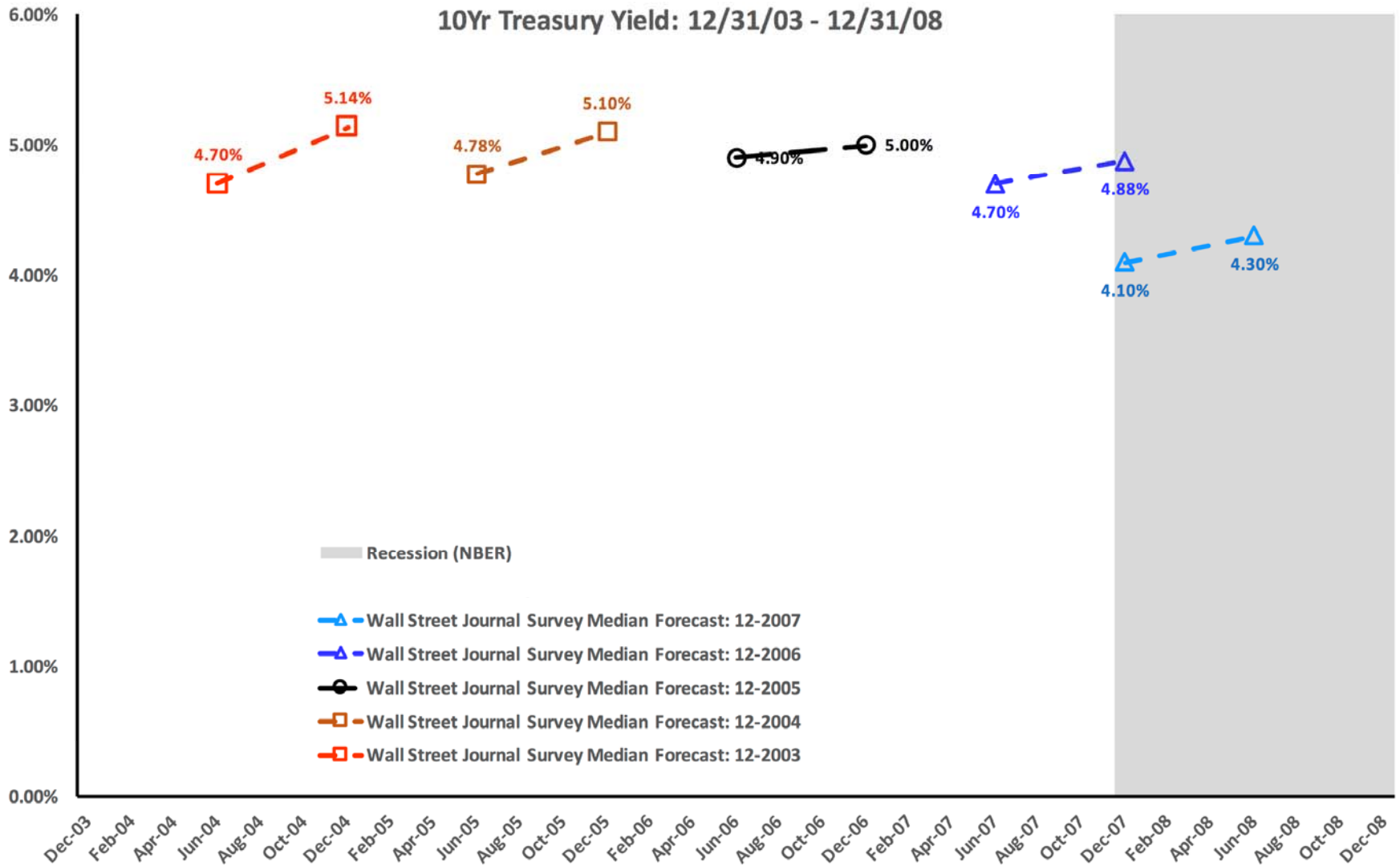
Edition 2015-12-01

- Updated Monthly
- Includes Identities
- Spreadsheet Data

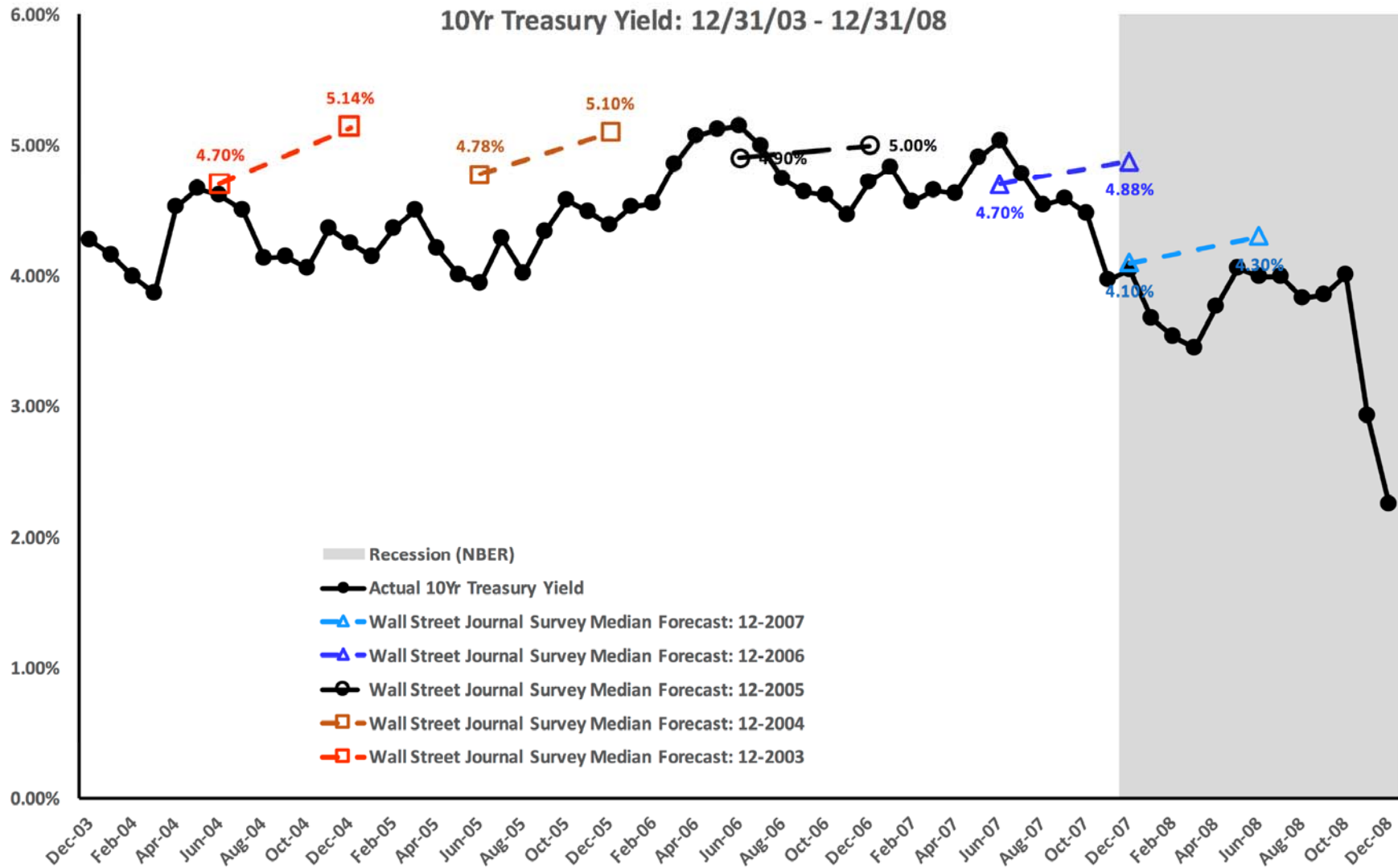
# History Alone



# Forecast Alone

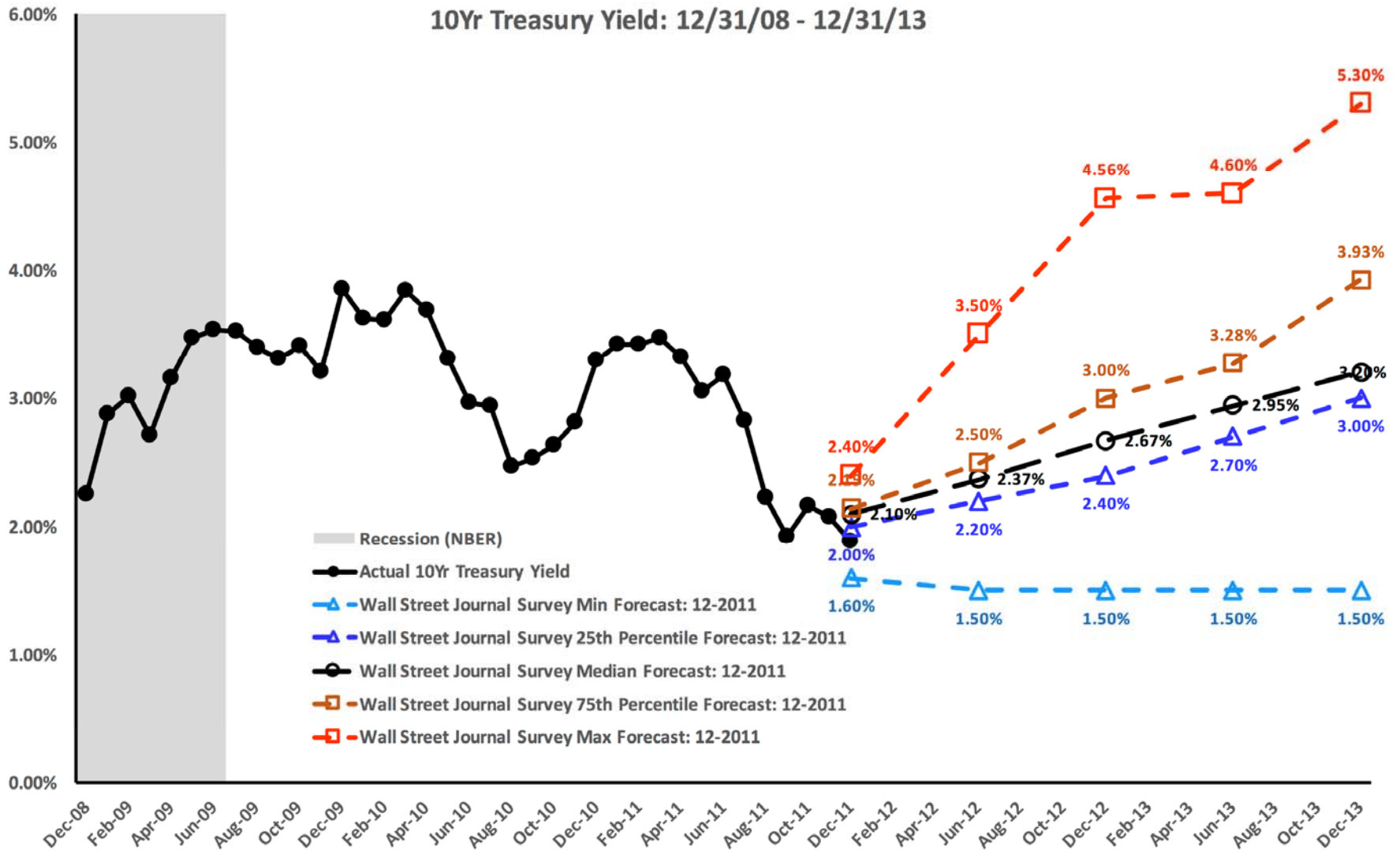


# All Together

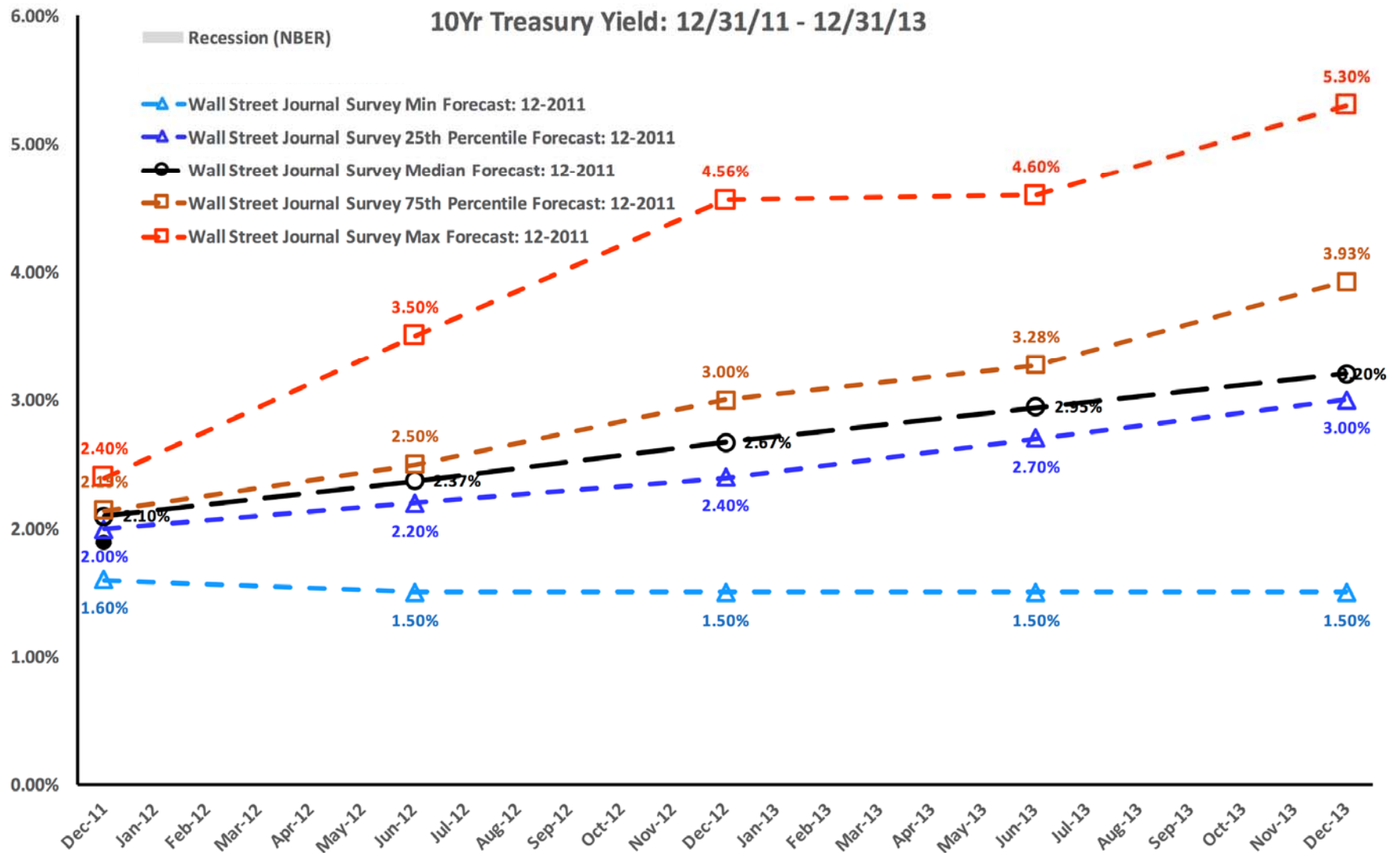




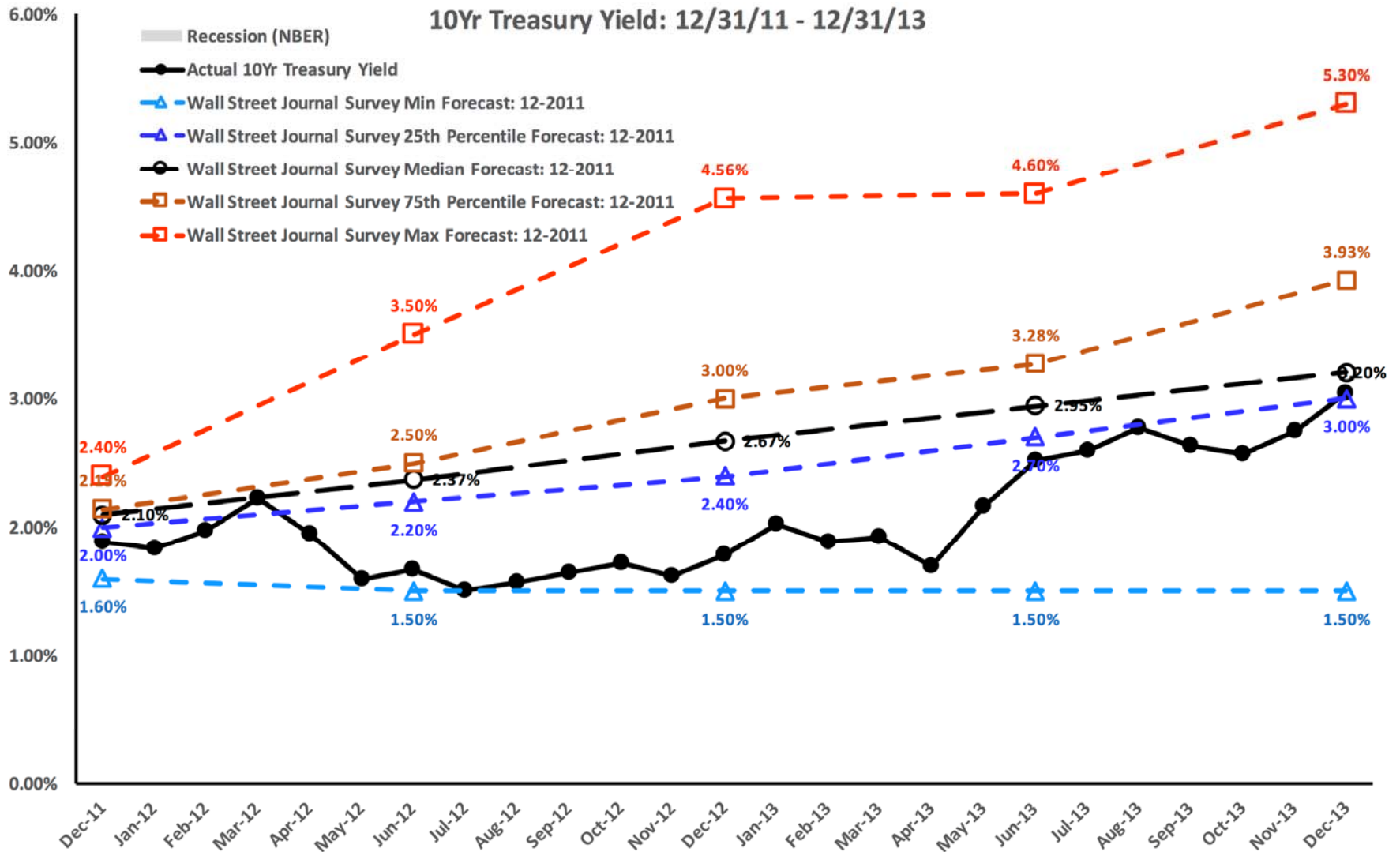
# Chalcas Chart: Dec-08 to Dec-13 on Dec-11



# Let's Focus. How did they do? Your Guess?



# How did “they” do? Did You Remember?



# Who did the best?

Overall Rank for Wall Street Journal 12-2011 Survey Forecasts for 06/30/12

Overall Rank	Forecaster	Fed Funds Rate	10Yr Treasury Yield	Unemployment Rate	CPI YoY	GDP
1	Moody's Investors Service	9	11	21	12	9
2	Univ of Central FL	9	24	25	4	3
3	IHS Global Insight	9	24	30	4	6
4	NEMA Business Information Services	1	9	25	27	15
5	Capital Economics	24	1	41	4	9
6	The Conference Board	9	6	41	19	7
7	Mesirow Financial	1	11	21	8	43
8	Credit Suisse	24	3	30	8	25
9	Goldman Sachs & Co.	9	18	30	27	9
10	PNC Financial Services Group	1	17	21	21	34
11	Comerica Bank	9	32	6	16	32
12	<i>Morgan Stanley</i>	8	6	37	13	32
12	<i>UCLA Anderson Forecast</i>	9	22	52	10	3
14	<i>Bank of America Securities-Merrill</i>	24	3	41	14	15
14	<i>JPM</i>	24	32	30	2	9
16	Societe Generale	45	3	48	3	1
17	California State University	1	18	14	32	38
18	The Northern Trust	20	8	21	27	30
19	<i>Macroeconomic Advisers</i>	24	31	30	10	15
19	<i>Parsec Financial</i>	24	27	4	1	54
21	Fannie Mae	42	11	41	14	3
22	Decision Economics Inc.	1	32	6	35	38
23	Barclays	9	45	6	19	34
24	Vanderbilt University	24	11	41	16	25
25	Nomura Securities International Inc.	24	28	25	16	25



# Who did the best?

Overall Rank for Wall Street Journal 12-2011 Survey Forecasts for 12/31/12

Overall Rank	Forecaster	Fed Funds Rate	10Yr Treasury Yield	Unemployment Rate	CPI YoY	GDP
1	NEMA Business Information Services	1	6	30	12	2
2	Mesirow Financial	1	17	20	2	28
3	Capital Economics	24	1	43	2	3
4	Univ of Central FL	9	24	30	6	5
5	IHS Global Insight	9	23	34	2	9
6	The Conference Board	9	4	30	32	5
7	Bank of America Securities-Merrill	24	9	43	10	1
8	Morgan Stanley	8	3	34	26	19
9	Credit Suisse	24	6	34	11	18
10	California State University	1	17	20	20	36
11	JPM	24	17	34	6	22
12	Nationwide Insurance	9	16	24	46	9
13	PNC Financial Services Group	1	26	24	32	22
14	Economic Analysis	7	33	3	44	19
15	Vanderbilt University	24	5	43	20	16
16	<i>Goldman Sachs &amp; Co.</i>	9	17	43	18	22
16	<i>Economic and Revenue Forecast</i>	24	28	17	12	28
18	<i>UCLA Anderson Forecast</i>	9	33	52	2	16
18	<i>Decision Economics Inc.</i>	1	30	7	27	47
20	Fannie Mae	42	9	43	15	4
21	Nomura Securities International Inc.	24	30	24	8	28
22	Perna Associates	1	41	17	27	31
23	<i>Comerica Bank</i>	9	33	10	27	39
23	<i>Moody's Investors Service</i>	9	28	20	20	41
25	International Council of Shopping	52	9	10	40	9






# Who? You Should Pick the Average/Median Forecast

*the signal and the noise and the noise and the noise and the noise why so many predictions fail—but some don't and the noise and the noise and the nate silver noise noise and the noise*

**“If you’re looking for an economic forecast, the best place to turn is the average or aggregate prediction rather than that of any one economist. ... This property— group forecasts beat individual ones— has been found to be true in almost every field in which it has been studied.”**

*Silver, Nate (2012-09-27). **The Signal and the Noise: Why So Many Predictions Fail-but Some Don't** (p. 197-198). Penguin Group US. Kindle Edition.*

*“The group mean forecasts from a series of surveys are on the average over time more accurate than most of the corresponding sets of individual predictions. This is a strong conclusion, which applies to all variables and predictive horizons covered and is consistent with evidence for different periods and from other studies.” - Zarnowitz, Victor (January 1992). **Business Cycles: Theory, History, Indicators, and Forecasting** (p. 457). University of Chicago Press. Downloadable from <http://www.nber.org/books/zarn92-1>*




# An Economic Apology

## Part 1

“The Theory of Economics does not furnish a body of settled conclusions immediately applicable to policy. It is a method rather than a doctrine, an apparatus of the mind, a technique of thinking, which helps its possessor to draw correct conclusions.”



John Maynard Keynes writing in the introduction of  
H.D. Henderson, *Supply and Demand* (New York: Harcourt, Brace and Company, 1922), v.



# An Economic Apology Part 2

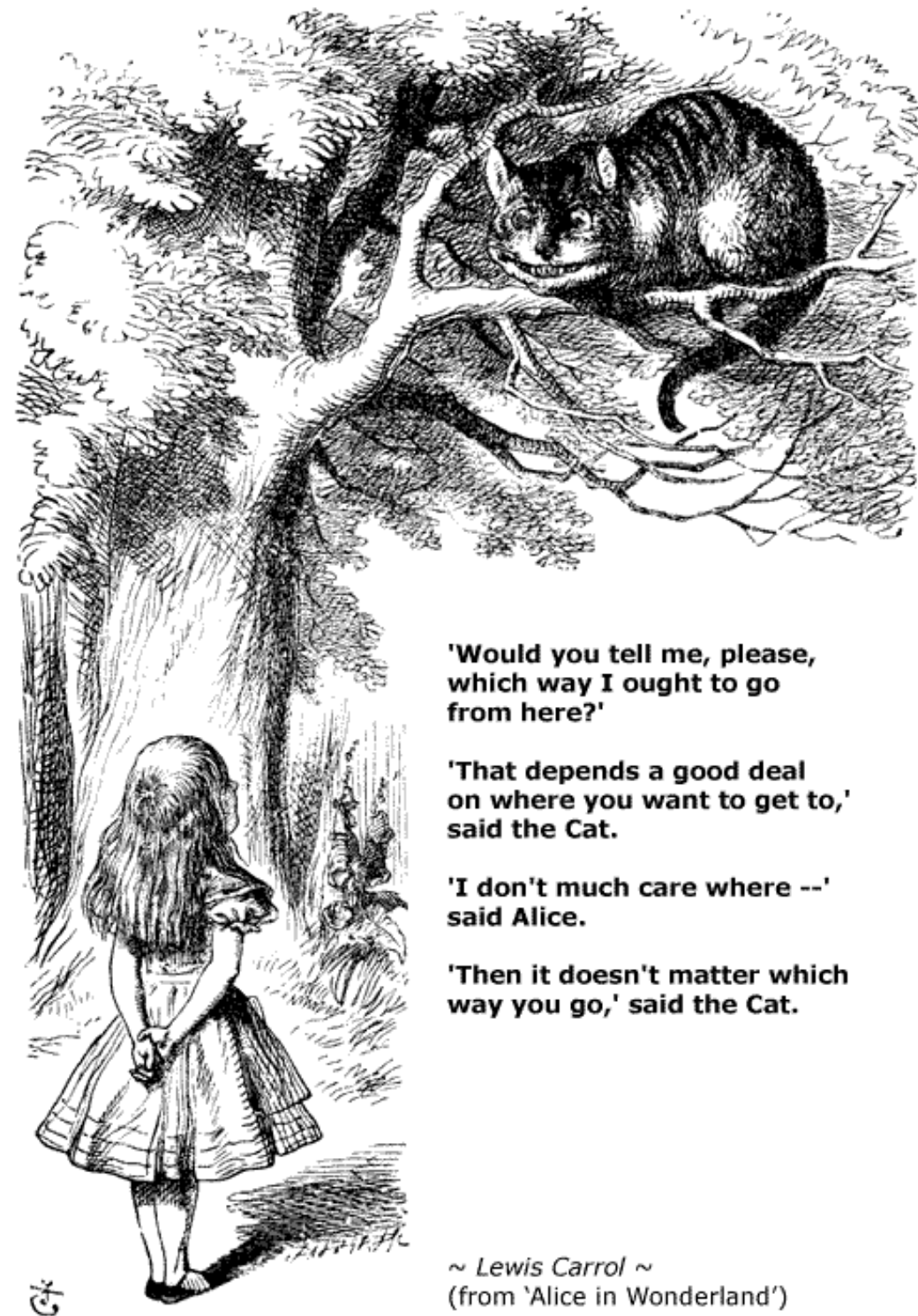
“Nobel laureate Kenneth Arrow has warned, “[O]ur knowledge of the way things work, in society or in nature, comes trailing clouds of vagueness. Vast ills have followed a belief in certainty.””





# An Economic Apology Part 3

## What is Economics?



'Would you tell me, please,  
which way I ought to go  
from here?'

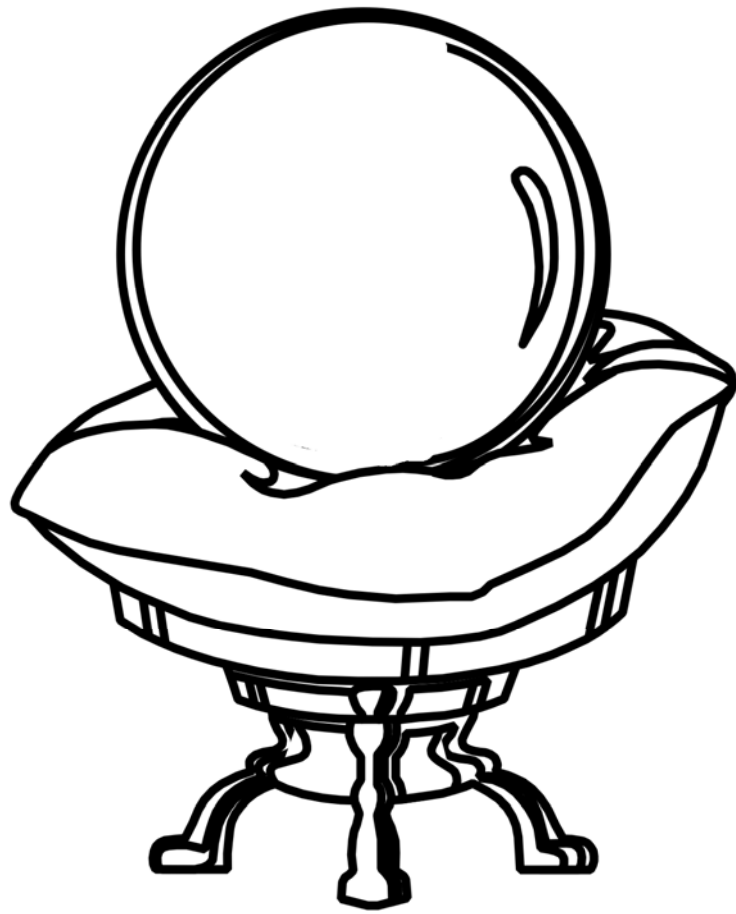
'That depends a good deal  
on where you want to get to,'  
said the Cat.

'I don't much care where --'  
said Alice.

'Then it doesn't matter which  
way you go,' said the Cat.

~ Lewis Carrol ~  
(from 'Alice in Wonderland')

**For fools rush in where  
angels fear to tread**



**“He who lives by the crystal  
ball soon learns to eat ground  
glass.”**

**C.C. Gaither;Alma E Cavazos-Gaither. Statistically Speaking:  
A Dictionary of Quotations (Kindle Locations 960-961). Kindle  
Edition.**





This is the part of the presentation where we cover updated forecasts for Fed Funds, 10 Year Treasury Yield, Inflation, Unemployment, GDP and Crude Oil.

We also cover a method to “eye-ball” how accurate past forecasts for these same variables have been.

Really...a must see!



# **Problem Resolution**

**I end this presentation with a general outline for any problem resolution. It is a must see!!!**



**Q & A**



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