

## OUTSIDE THE FLAGS

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# Many Happy Returns

It's that time of the year when the talking heads of television and the prognosticators of print issue their sage outlooks for the coming 12 months. While this crystal ball gazing is always entertaining, it becomes even more so a year later.

In journalism, this is known as the “silly season.” Lots of people are on vacations, and the flow of news slows to a crawl. So the wide open spaces are filled with forecasts about the economy, markets, and anything else you can think of.

Think back a year ago, when politicians in Washington were in the grip of one of their now familiar “fiscal cliff” standoffs. As has become the custom, the theater of brinkmanship kept everyone guessing until a last-minute resolution.

For some, the excitement was just too much. The publication Financial News told its readers that “political storm clouds loom over the global economy. From Washington to Beijing, the financial markets are in thrall to seismic political events.”

In The Economist magazine, the tone about 2013's prospects was equally skeptical, if not quite as florid. The magazine

noted that while surveys showed investors were optimistic, the coming year was unlikely to be a one to remember.

The reason was that the past year's gains partly reflected relief that the worst fears about the euro zone had failed to materialize, the magazine said, which meant that reality might intervene as investors judged shares as expensive.

“Although investors are not as complacent as they were heading into 2000 or 2007, say, it is still hard to believe this will be a bumper year for returns,” the columnist Buttonwood said in his column.

The skepticism was universal. The Australian Financial Review quoted analysts as saying the prospect of rising bond yields and slowing profit growth did not augur well for a repeat of the performance of risky assets seen in 2012.

“Analysts are predicting no end to the volatility that has gripped markets over the New Year period, posing

dilemmas for investors wondering how to invest in 2013,” the reporter concluded.

It’s easier to see from all this forecasting that many investors might have taken fright at the developments around the turn of the year and sought to trim their exposures to risky assets because of what the media pundits were saying.

That would have been a shame because, as of early December 2013, many global equity markets were notching record-breaking years. In local currency terms, the S&P 500 total return index, for instance, was up by just under 29% at time of writing, on track for its biggest annual gain in more than a decade.

In Japan, the Nikkei 225 total return index was 53% higher as of early December, heading for its best yearly gain since 1972. In the UK, the FTSE 100 total return index reached a 13-year peak in May this year. It has come off a little since then, but was still nearly 15% higher for the year by December.

As the year comes to an end again, there are still plenty of gloomy stories to fill the newspapers—including ongoing

speculation of what happens when the US Federal Reserve begins tapering its monetary stimulus program.

This isn’t to say these stories are necessarily incorrect. Most of them accurately reflect the sentiment prevailing at the time they were written and the uncertainty about the future, as expressed in prices.

But as an individual investor, there is not much you can do about that. These expectations and uncertainties are already built into the market. Investing is about what happens next. We don’t know what happens next. That’s why we diversify.

And think about this: If any of the gurus who regularly appear on financial television or in the newspaper really had a crystal-clear view of the future, why would they bother sharing it with the world?

It makes more sense to focus on what’s in your own control.

In the meantime, many happy returns!



*“Outside the Flags” began as a weekly web column on Dimensional Fund Advisors’ website in 2006. The articles are designed to help fee-only advisors communicate with their clients about the principles of good investment—working with markets, understanding risk and return, broadly diversifying and focusing on elements within the investor’s control—including portfolio structure, fees, taxes, and discipline. Jim’s flags metaphor has been taken up and recognized by Australia’s corporate regulator in its own investor education program.*

1. Financial News, January 7, 2013.
2. “Hope Springs Eternal,” The Economist, January 5, 2013.
3. “Shares, Bonds Brace for Volatility,” The Australian Financial Review, January 5, 2013.

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