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Most investors assume there is some value in forecasting investment returns. But they should look beyond the enthusiasm and recognize that providing sound investment advice isn't always the motivation.

Forecasting of investment returns by analysts in the media is a tradition. For as long as I can remember, there have been experts willing to give opinions on the stock market. And for reasons I don't fully understand, investors are willing to listen and make investment decisions based on what they hear.

Savvy investors are careful not to make investment decisions based on forecasts. But open any investment magazine or tune in to a financial program, and you'll hear a forecast for the market. Most of these forecasts, even during the recent bear market, paint a rosy picture of the future. I can't help but wonder why.

The ritual of forecasting doesn't bother me; it's the lack of objective analysis that does.

Why is there so much agreement among analysts who are supposed to be objective? Has every analyst been cut from the same cloth?

The common thread may be that most analysts and the firms employing them stand to benefit financially by creating a positive expectation for the stock market. After all, the bottom line for so many investment firms depends on their ability to sell securities to investors. If they succeed in creating a positive expectation for the future, they improve their chances of gaining new customers. Investors without an expectation of higher prices will find something else do with their dollars.

Nothing bothers me more than the great numbers of investors who have suffered because of their focus on potential payoffs while overlooking the costs of being wrong about their forecasts. Most people simply cannot be objective about their expectations. They fail to recognize the low probability of their forecasts being correct. Missing the forecast is the norm, not the exception. Furthermore, the source of the forecast has little to do with its accuracy. Professionals are just as vulnerable as amateurs.

When you think of the countless investors seeking the next Microsoft, understand the probability that a given investor will identify such a stock is very unlikely. While the potential payoff is high, the chances of success must be weighed against the odds. So what should investors do? Read next week's article on "Beyond Forecasting."

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