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## Did the Doomsayers *Really* Get it Right?

A discussion of the January 2<sup>nd</sup>, 2009 article in The Wall Street Journal by Jeff Opdyke, entitled "*Doomsayers Who Got It Right*"

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### Introduction

With global markets in turmoil and investors facing historic declines in the market value of their investments, the investment world is looking to the past for indications on how we got where we are today and who saw it coming. Jeff Opdyke's article in the January 2<sup>nd</sup>, 2009 edition of The Wall Street Journal entitled "*Doomsayers Who Got It Right*" highlights three select individuals who accurately predicted portions of the current economic crisis. The article discusses the accuracy of some seemingly bold predictions by each of the three individuals, but fails to assess the financial impact, or benefit, of these predictions' accuracy for the individuals, their strategies, or their clients.

### Method for Evaluation

With our interest piqued by the article, CapTrust wanted to test not only the accuracy of the candidates' predictions, but more importantly examine whether these predictions helped the individuals' respective firms, or strategies, sidestep some of the catastrophe in the financial markets. In essence, *Were they Right?* And if so, *What did they Win?*

In order to assess each of these variables we put together a simplified scorecard for each of the three individuals, assessing the accuracy of their predictions and the benefit to their firm or their clients. Each of the highlighted individuals in the piece maintains different positions within their firm and thus the process of assessing the rewards of their accuracy may differ slightly. Though the methods of evaluation may differ slightly, our focus will remain on the calendar year 2008.

### The Results

A scorecard was compiled for each of the three highlighted individuals assessing both the accuracy and impact of their predictions. Below the scorecard detailed analysis on each of the individuals is provided.

## Jeremy Grantham, Co-Founder GMO LLC

Were they Right?		
	Predictions	Correct
<i>Accuracy of Predictions</i>	5	5
	Funds	Out-performers
<i>Accuracy of Fund(s)</i>	38	25

What did they Win?		
	Average	Weighted Average
<i>Absolute Performance</i>	-29.82%	-31.04%
<i>Relative Performance</i>	-2.18%	-0.04%
<i>Morningstar Universe Rank</i>	34.79%	30.15%

**Predictions:** Since 2000, Jeremy Grantham has been calling for a “sensational bust” in the financial markets, noting that aggressive fiscal policy by the Federal Reserve after the attacks on September 11<sup>th</sup>, 2001 would simply delay an inevitable recession. Some of his more provocative predictions include a prediction for the ultimate collapse of the financial system, the collapse of one major bank in this process, and the accuracy in identifying the correct month in which some of the deepest risks would be identified (October 2008). In each of these cases, Mr. Grantham demonstrated strong foresight and as such we’ve graded out each of the major predictions highlighted in the article as accurate.

**The Prize:** Despite remarkable accuracy in his predictions, Mr. Grantham’s firm, Grantham, Mayo, Van Otterloo & Co., failed to show such inspiring results. While assessing a total of 38 mutual fund strategies managed by the firm, twenty five of the thirty eight out-performed their primary benchmark (according to Morningstar). However even while out-pacing the benchmark in 65% of the cases, the firm’s strategies on a weighted average ever-so slightly under-performed a weighted average of their benchmarks. The sources of much of the under-performance were in aggressively managed Fixed Income strategies that in a number of cases declined between 8-14%. Though the firm’s co-founder, Mr. Grantham showed a strong ability to forecast the demise in the financial markets, his firm’s strategy as a whole was relatively in line with their benchmarks and the firm added little value above its competition.

## Bob Rodriguez, Portfolio Manager, FPA New Income Fund

Were they Right?		
	Predictions	Correct
<i>Accuracy of Predictions</i>	4	3
	Funds	Out-performers
<i>Accuracy of Fund(s)</i>	1	0

What did they Win?		
	Average	Weighted Average
<i>Absolute Performance</i>	4.30%	4.30%
<i>Relative Performance</i>	-0.90%	-0.90%
<i>Morningstar Universe Rank</i>	14.00%	14.00%

**Predictions:** Bob Rodriguez began having concerns about the mortgage environment as early as 2005. He abandoned investments in supposedly high quality Alt-A mortgages as delinquencies and foreclosures were surging on relatively young mortgages. Mr. Rodriguez also suggested a “Pandemic Collapse” in the rules by which lenders approved mortgages had occurred and as a result the entire mortgage-backed sector was at risk. He anticipated a massive bubble in Treasuries forming, one that we have seen take place in late November and continued on into 2009. Finally, Mr. Rodriguez predicted the U.S. Savings Rate would approach 4% by the end of the first quarter in 2009. This prediction has yet to come to fruition, but signs suggest the bold prediction has a chance at coming true as Americans continue to hoard cash and try to pay down existing debt.

**The Prize:** Evaluating the “prize” for Mr. Rodriguez is a bit simpler as he is directly responsible for the performance of the FPA New Income Fund. Mr. Rodriguez’s fund under-performed the benchmark in 2008, but ranked in the top 14% of all strategies within its peer universe (according to Morningstar). Though the treasury-laden benchmarks in Fixed Income proved nearly impossible to beat, Mr. Rodriguez’s predictions resulted in a clear benefit to his investors as his fund avoided many of the illiquidity issues caused by derivative products within the fixed income markets.

Peter Schiff, President and Chief Global Strategist, EuroPacific Capital

Were they Right?		
	Predictions	Correct
<i>Accuracy of Predictions</i>	6	4
	Funds	Out-performers
<i>Accuracy of Fund(s)</i>	N/A	N/A

What did they Win?		
	Average	Weighted Average
<i>Absolute Performance</i>	N/A	N/A
<i>Relative Performance</i>	N/A	N/A
<i>Morningstar Universe Rank</i>	N/A	N/A

**Predictions:** Perhaps Mr. Schiff’s most noteworthy prediction is calling the beginning of the recession to the month, noting that December 2007 would ultimately be the beginning of the recession back in 2006. He spoke swiftly and strongly in his viewpoints on the ramifications of deeds done in the mortgage markets, predicting the housing downturn and ultimately forecasting the demise of Freddie Mac and Fannie Mae in his 2007 book “Crash Proof”. The boldness of his calls combined with the accuracy and precision in the timing and the impact made Schiff an obvious candidate for the list. Although a number of Schiff’s calls were accurate, the article highlights some areas where he “missed”. Schiff called for Foreign securities to largely out-perform their Domestic counterparts and called for the rapid depreciation of the U.S. Dollar, both of which have yet to happen.

**The Prize:** As President and Chief Global Strategist at EuroPacific Capital, Mr. Schiff’s impact on his firm or client’s success is less transparent. EuroPacific Capital is a broker/dealer located in Darien, Connecticut and as such has no specific investment strategies or product lines which we can readily assess.

## Conclusions

Mr. Opdyke's article provides an informative look at some of the predictions made in the past regarding the current state of the financial markets. The predictions highlighted are impressive in their accuracy and it's worth recognizing those individuals for their boldness and accuracy. However, while the article provides insight, we believe it lacks context for potential investors. Accuracy in the business of bold predictions, even when done with impressive precision, can be used as a marketing tool to garner personal attention and interest in the individuals company; however, that accuracy isn't always a direct corollary to investment success. While a number of investors reading this article may be inclined to invest with those who "got it right", they may often be surprised to find out how little they had actually "won".

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