

Don't trust analysts' forecasts: always positive, no predictive power

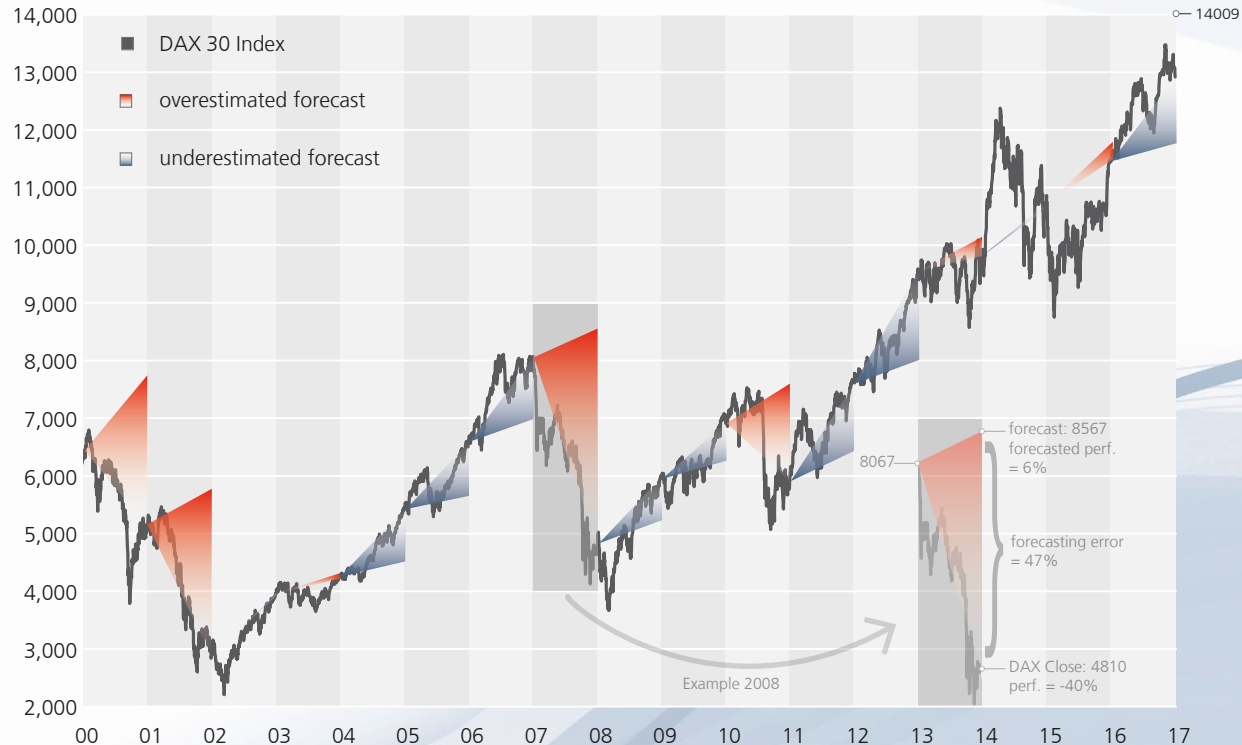
Analysts failed to beat simple 6-21% performance forecasts in the DAX Index from 2000-2017

DAX 30 performance vs. analysts' forecasts vs. naive 9% forecast

Year	DAX 30 Index		Analysts's forecast			Naive forecast	
	Close	Perf.	Forecast	Perf. ¹	Error ²	Perf. ³	Error
2001	5160	-20%	7722	20%	40%	9%	29%
2002	2893	-44%	5779	12%	56%	9%	53%
2003	3965	37%	3915	35%	-2%	9%	-28%
2004	4256	7%	4318	9%	2%	9%	2%
2005	5408	27%	4558	7%	-20%	9%	-18%
2006	6597	22%	5717	6%	-16%	9%	-13%
2007	8067	22%	7027	7%	-16%	9%	-13%
2008	4810	-40%	8567	6%	47%	9%	50%
2009	5957	24%	5230	9%	-15%	9%	-15%
2010	6914	16%	6340	6%	-10%	9%	-7%
2011	5898	-15%	7605	10%	25%	9%	24%
2012	7612	29%	6573	11%	-18%	9%	-20%
2013	9552	25%	8029	5%	-20%	9%	-16%
2014	9806	3%	10123	6%	3%	9%	7%
2015	10743	10%	10706	9%	0%	9%	0%
2016	11481	7%	11793	10%	3%	9%	2%
2017	12918	13%	11724	2%	-10%	9%	-3%
2018	?	?	14009	8%		9%	
Average absolute forecasting error:					18%	18%	

Sources: miscellaneous media especially handelsblatt.com (forecasts), Thomson Reuters Datastream (DAX 30)

Analysts' yearly DAX 30 forecasts since 2001 and their corresponding forecasting errors



The data shows no significant statistical relationship between forecasted and realized performance. **A naive forecast, assuming a constant annual performance of 9% led to the same forecasting error of 18%. This result holds true for any chosen annual performance forecast between 6% and 21% ...**

1) Analysts usually develop their forecasts mid-December. High performance forecasts usually result from DAX drops between forecast-announcement date and december close (like 2002). Based on early December levels, the analysts' percentage forecast would never exceed 19% (average 11%). 2) The forecasting error is the deviation of the forecasted performance from the actual performance in a given year. 3) The naive forecast is a 9.2% constant rate, which corresponds to the global real rate of return from 1900 to 2000 with added inflation (see ABN AMBRO Global Investment Returns Yearbook 2004). DAX close as of 12/29/2017.