

About the Reliability of Economic Forecasts

It is quite common to provide yearly predictions at the beginning of a new year, but one has to ask himself, how useful are these forecasts? Looking at the 2014 forecasts provided by a leading (randomly selected) US investment house back in autumn 2013 and comparing them to actual data:

	Oct. 13	Forecasts for Dec. 14	Actual Prices/Estimates
USD/EUR	1.37	1.40	1.21
JPY/USD	98	105	120
USD/RUB	32	32.5	61
Crude Oil (WTI)	102	102	53
Gold	1270	1280	1183
GDP Growth USA		2.6%	2.4%
GDP Growth Germany		1.9%	1.0%
GDP Growth Japan		1.8%	0.2%
GDP Growth Russia		2.8%	0.7%
GDP Growth Vietnam		5.5%	6.0%
Inflation Vietnam		7.1%	4.1%

One can of course argue that last year was a special situation with Russian turmoil and the troubled commodity sector. But, on the other hand, how many years have there been that have not been affected by unexpected political or economic crises, natural disasters, epidemics, etc.? It does not matter which analysts or organizations one does follow over the years - the results are all equally scary. Another example from the past is the forecast (in)abilities of the leading economic researchers in Germany and their quarterly reports, also known as the Advisory Council, or "the German council of economic experts". Their results are used by the politicians as guidance for the German economic policies.

		Actual Growth
2005	Autumn Forecast 2004	1.5%
	The German council of economic experts	0.8% (-45%)
2006	Autumn Forecast 2005	1.2%
	The German council of economic experts	3.4% (+209%)
2007	Autumn Forecast 2006	1.4%
	The German council of economic experts	2.7% (+69%)
2008	Autumn Forecast 2007	2.2%
	The German council of economic experts	1.0% (-51%)
2009	Autumn Forecast 2008	0.2%
	The German council of economic experts	-4.7% (<<<<)
2010	Autumn Forecast 2009	1.2%
	The German council of economic experts	3.6% (+157%)
2011	Autumn Forecast 2010	2.0%
	The German council of economic experts	3.3% (+57%)
2012	Autumn Forecast 2011	0.8%
	The German council of economic experts	0.7% (-18%)
2013	Autumn Forecast 2012	1.0%

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	The German council of economic experts	0.8%	0.4% (-56%)
2014e	Autumn Forecast 2013	1.8%	
	The German council of economic experts	1.6%	1.0% (-41%)

If, despite enormous efforts, experts don't succeed to closely predict macroeconomic key numbers for next year, then how are analysts able to accurately forecast key numbers such as earnings of individual companies? It is therefore not surprising when quarterly results often vary by 20% or more of the analysts' forecasts. All the more astonishing is when analysts publish earnings forecasts today for 2017, 2018 or even 2025.

All these data and forecasts are then widely published by more or less independent media companies and investment banks. Since the sources of news are financial experts who are well aware of the fact that the future can't be predicted, readers and publishers no longer question the quality and accuracy of this data.

We are not trying to say that we would be able to deliver better forecasts. On the contrary, with the knowledge just described, this helps us to operate more flexibly in the market and we are able to adjust better to the market psychology.

Following the course of the past year, we are convinced that the Vietnamese market has lost none of its appeal and probably still has the greatest potential in the region. Whether the index on a given day in 2015 - for example, 31 December - will be at 450 points, unchanged, or at 750, however, is simply something we honestly can't predict.

But what we can say with certainty is that we will work very hard again this year in order to achieve a strong return for our investors, as we did in 2014. We are confident that we will succeed as well this year, as long as we can identify significant valuation discounts in small- and midcaps and the earnings momentum of these companies in comparison to the blue chips remains attractive. But rest assured, should this valuation gap and earnings momentum advantage for some unexpected reason disappear, we are flexible enough to adjust our strategy should that be required.

Sources: Worldbank, Citibank, Statistisches Bundesamt, BDI - Bundesverband der Deutschen Industrie e.V.

Best regards

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