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BLOG POST
Roundtable
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Political polling has become very unreliable for a host of reasons but I believe economic forecasting error has also risen dramatically. Formerly reliable indicators and data points seem less reliable in today's market. How are you addressing this reality?

Clint Pekrul: Polls are absolutely unreliable, but they do move the markets. Think about the last election in 2016. If you looked at the polls, a Clinton presidency was an absolute certainty. That is until election night, when Trump seemed to "magically" win the presidency. In my point of view, there's really no way to quantify the benefit, or lack thereof, of political polls. From a portfolio management standpoint, polls offer us nothing but noise in my opinion. The forecasted results are not necessarily something you trade on.

Sam, as a frequent speaker at economic events where you make forecasts, how does this impact your work?

Sam Stovall: One indicator came through in 2016 and should be watched closely in 2020: The Presidential predictor, which reminds us that if the S&P 500 declines from July 31 through October 31, the incumbent person or party has been defeated 90% of the time since WWII. This predictor foretold Donald Trump's election in 2016. As for other indicators, sometimes it depends on how you look at them. Yes, flat-to-inverted yield curves preceded all recessions since 1980, but not all flat-to-invested curves led to recession. They did, however, point to the beginning of a rate-reduction cycle, which happened in 2019 as well.

Your thoughts JD?

John DeTore: Statistical analysis is relatively easy and can be learned in a few college classes. Forecasting is maddeningly hard and often largely based on the forecaster's training, assumptions, biases and experience.

What happened to the notoriously inaccurate polls of 2016?

Party affiliation, likelihood of voting, age, sex, state of residence all affect candidate choice — even the most careful survey will find that the sample pool is different than the total voting population. All pollsters adjust their sample demographics to what they assume the voting population is. But how many of each will show up on the big day?

Many pollsters in 2016 assumed they could use the turnout in 2012. The election had a large black, young, liberal turnout . . . are we surprised given the first black US president was elected? Did we think Hillary would get the same response? Most pollsters did, but does that make sense? Several pollsters, who saw Trump as having a decent chance, were publicly describing this specific statistical error.

Economic forecasting is an art best practiced by people who understand the economy. Which means most of us should stop doing it.

Mr. Mauldin, you regularly write on politics and markets, your thoughts on forecasting error?

John Mauldin: I think we have to be aware that even though polls will be taken, they are very unreliable. The methodologies that they are using are unreliable. Who they are talking to is not consistent and the "adjustments" are often influenced by desired outcomes. It is going to drive markets, and you're going to get swings in polls as events happen. Therefore, we are going to have strategies to address that volatility in our portfolios. If you're asking me what I think is going to happen in November of 2020, I have literally no idea.

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