

“Analysts are Mostly Wrong.”

WEEKLY LEARNINGS 2023

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I watched a business channel last week. There was a hypothesis that new CEOs drive valuation. One proponent believed in his logic, and another gave some 'dubious' logic on distribution etc. as support.

Here's their thesis:

There are 73 new CEOs in the last 12 months in the 500 listed companies.

In 2 companies share price has tripled
In 6 companies share price moved 100-200%
In 10 companies share price moved 30-100%
In 12 companies share price moved 1-10% and
In 12 companies share price is negative.

This data shows the thesis is wrong and other factors are at play, nothing to do with a new CEO.

Jatin and Lakshika analysed data from September 2000 to September 2023, for 23 years and the key points are:

1. The Sensex and the Nifty returned 12% CAGR over 23 years, Gold was 9% Silver 7%.
2. The US index grew 5% in this period. The US index grew 7% in the 1803 to 2003 period, over 200 years beating gold, the US treasury bonds and investment in the dollar. Wharton Professor John Percival says the stock market returns best over decades.
3. The US S&P 500 is interesting in 2023. The top 7 tech stocks have gained between 40 to 180% while the rest 493 have been FLAT.
4. Prices over 23 years in India, CAGR price of entry-level cars is up 1%, price of cell phones dropped 6%, laptop prices are flat, petrol up 6% and diesel up 8% and movie ticket prices up 7%.

5. There are many terrible analyst predictions. The biggest goofs: a. predicting the Dow Jones to be 30,000 in 2008. it was 11,000 !!, b. Paul Krugman said in 1998 that the Internet will have no impact on financial markets. c. AIG in 2007 said that the Credit definition swaps were strong, and they would not lose even a dollar on them. AIG collapsed in 2008 and needed a government bailout package of \$85 billion, d. Fannie Mae said in 2007 that subprime is 'risk-free'.
6. Wall Street analyst prediction analysis over 35 years (1981 to 2016) has been wrong. Stocks where analysts were pessimistic did 15% better and stocks where analysts were bullish just gave 3%. Results of similar studies are consistent- the odds of an analyst prediction are like roulette; you have the same odds. 35:1. Analysts had bought Motorola the day before it crashed.
7. Bloomberg predicted a lower stock index in 2023 for India, Citi had NIFTY at 17,700 for 2023, and Goldman Sachs had it at 20,500. All foreign banks and investors got the \$ to ₹ right, forecasted between Rs 84 to Rs 87 for the dollar.
8. So, to the wild New CEO thesis of last week, why does this happen? India is a porous market and incestuous market, the same bunch of people are talking to each other, CEOs/senior managers are information tipsters, and it is in everyone's interest to push the market up. Everyone is playing the short game and they should think deeply about underlying trends/numbers.

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Data September 2023 vs 2000

	Unit	1, September 2000	1, September 2023	CAGR %
Gold price	USD per troy ounce	277	1,931	9%
USA stock Index	Index	1,518	4,508	5%
Sensex	Index	4,477	64,831	12%
NIFTY	Index	1,394	19,253	12%
Silver price	USD per troy ounce	5	23	7%
Internet speed	KB/sec	220	83,000	29%

Data September 2023 vs September 2000

	Unit	1, September 2000	1, September 2023	CAGR %
Maruti basic model price	INR Lacs	3	4	1%
Delhi Mumbai flight tkt				
Movie theatre tkt price	INR	24	125	7%
Laptop price	Dell Inspiron 3800 (2000) Dell Inspiron 16 (2023)	\$1,199	\$1,231	0%
Cellphone price	Nokia 3310	\$169	\$46	-6%
Petrol price	INR	28	97	6%
Diesel price	INR	17	90	8%