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I cover investing strategies and trends in ETFs and mutual funds.

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How Ignoring Stock Market Forecasts Will Make You A Better Investor

There's no shortage of investing gurus who soared to stock market stardom for calling epic moments in Wall Street history. Black Money 1987. The 2010 Flash Crash. Judgement Day Dec. 21, 2012. After their 15 minutes of fame expire, you never see them on CNBC again because they've been wrong ever since. They fall into oblivion like the Tri-County All-Star quarterback who peaked in high school.

If you make enough predictions, you're bound to be right at least once the way a broken clock is right twice a day. There's no way to know ahead of time which stock market forecasts will be right. Thus, you best ignore all of them.

I asked a panel of investment advisers to weigh in about why investors are better off ignoring stock market forecasts.

There's no shortage of investing gurus who soared to stock market stardom for calling epic moments in Wall Street history. Seen here: trader Robert Arciero, center, works on the floor of the NYSE. (AP Photo/Richard Drew)

3. There can be something that comes out of left field that alters the business environment.

I put little value in forecasting the stock market. There are too many variables to predict the future of financial prices accurately. Even if a forecaster has a reasonable grasp on economic data, there can be something that comes out of left field that alters the business environment. Things like wars, breakthrough technologies, or acts of terrorism can change the course of financial markets.

Forecasting the stock market seems like a reasonable thing to do. However, there is no evidence that shows that it is a valuable practice over the long term. A lot of data suggests that many analysts face biases in their reviews. It was revealed in light of the 2008 financial crisis that the ratings agencies Moody's and S&P were, in many cases, being paid by these very same companies that they were rating. These kinds of conflicts exist all over Wall Street.

Many financial institutions are involved in helping companies with corporate services like mergers and acquisitions or capital raising and also provide research on the company, which (although it is perfectly legal) causes a conflicted relationship. This provides forecasters with powerful client retention incentives to give certain companies a strong rating, which is exactly what happened with the ratings agencies. S&P & Moody's rated AIG and Lehman Brothers as high quality "investment grade" bonds all the way through until their imminent collapse.

I often hear Wall Street prognosticators eager to give their guidance for the next year. On the other hand, you have Warren Buffett consistently saying that he cannot predict the market. That is one of the reasons that Buffett is so refreshing. For an investor, admitting what you don't know is extremely important. It helps to eliminate the kind of guesswork that does not produce value. There have been numerous studies, none of which indicate that stock market forecasts as a whole are any better than 50% accurate. It does not make sense to invest based on forecasters' predictions, which seem to be no better than a coin flip.

– Daniel Beckerman, CFP, ChFC, president of Beckerman Institutional

Ky Trang Ho is the founder of Key Financial Media LLC, which produces content and thought leadership for financial advisors and investment strategists.

