THE LOGIC IS THE STEAK, THE FORECAST THE SIZZLE

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We have been writing market forecasts at *Futures* and now *Modern Trader* magazine for decades. Anyone can provide a market outlook or opinion, so the test I always used was the logic behind someone's forecast. It could be fundamental or it could be technical, but it had to make sense, there had to be logic behind it.

This was a good policy. It didn't mean that the person we interviewed was always correct, but it did mean there was thought behind it; an argument was made with facts that could be checked for veracity. A reader could have come to a different conclusion, but he or she would have had an additional piece of information to make an intelligent choice as to where a particular market was headed.

I always cringe when someone makes the celebrity of an analyst an argument for pushing an outlook forward. A market call should be backed with compelling evidence—technical, fundamental or perhaps seasonal—but that a person appears on CNBC has never met my criteria. The reason for this is simple; no one knows where the market will go. Sometimes analysts we spoke to provided interesting and even prescient fundamental information, but the market reacted counterintuitively to it; others were completely wrong in their analysis but the market moved their way. What does this mean? Who was right? I am not sure but as a reporter my job was not to make predictions but to provide information to ensure that our readers were well-informed before making a trade.

A few years ago there was a great deal of controversy regarding the effect long-only commodity funds had on markets. We were skeptical about the mass hysteria developing over these products in places of power and the mainstream business media. It became a matter of faith in those circles that the emergence of long-only commodity investing created a bubble in commodities in general, and crude oil in particular. Luckily for us and our readers we had access to people who had a deep understanding of cash and futures markets that provided a better context for the moves.

One of the arguments made by a certain Commodity Futures Trading Commission (CFTC) Commissioner was that the fundamentals did not support the market move. These publicly available fundamentals apparently were all that was needed for a trader—hedger or speculator—CFTC commissioner or business journalist to determine the proper path of the market. There is one problem with this logic: If it were true, then there would be no losers in the market. Everyone would access this fundamental information, do the appropriate analysis, take the appropriate position and just wait for the money to flow in. We all know that is not how markets work.

It is usually only after the fact that we can see the real drivers of a move. Only the smartest of us saw it first, and also drew the proper conclusions.

There are folks who always are looking for the shortcut: Either the "can't miss" system or market guru who will lead them to riches. Kevin Davey points out the danger of this in "Beware the cult of personality" (page 46). The reality of trading success is best epitomized in this month's Trader profile (see "How Hoffman became a better trader," page 80). In it, Rob Hoffman acknowledges that his trading success grew from a long series of trading failures. This is an important point because on many occasions we have highlighted rogue traders, and a common trait of rogue traders is an inability to take, or even acknowledge, a losing trade.

It is no surprise then that one of the five traits of Superforecasters described in "It's not just what you forecast, it's how you forecast" (page 18), by Garrett Baldwin, is the willingness to admit error and quickly change course.

It is good advice for anyone, even regulators. In "CFTC proposes sweeing rules for algorithmic trading" (page 62) Donald L. Horwitz breaks down the CFTC's new rule proposal for algo traders. In "Source code, it's the real thing" (page 82) Bill Harts points out the risk in allowing the government to access proprietary trading source code.

If there is one message in our forecasting issue traders should retain, it is that methods matter. We do not want to crown a guru or present a magic bullet, but to provide the tools to help traders and investors determine which market forecasts are based on valid analysis and are worth listening to, and which forecasts are simply noise.

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