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Wall Street gurus find predictions game getting harder

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NEW YORK (Reuters) - With every new year come a new round of bold predictions for financial markets.

Bill Gross, the manager of the world's largest bond fund, kicked off the year calling the current market "paranormal." He forecast a 2012 characterized by "credit and zero-bound interest rate risk."

Blackstone (NYSE:BX - News) Vice Chairman Byron Wien, among the securities industry's best known prognosticators, on Tuesday unveiled his latest crop of 10 "surprises" for the coming year. BlackRock (NYSE:BLK - News) Vice Chairman Bob Doll is bullish on stocks, while one well-known forecaster even waved the surrender flag.

Among some predictions: Doll foresees double-digit U.S. stock returns, while Wien sees benchmark oil prices plunging to $65 a barrel.

In the past -- before U.S. housing prices fell and kept falling for first time since the Depression or the future of Euro zone was at risk -- their educated guesses had a good chance of being right.

But these days, market volatility is the norm and far-flung political events can send U.S. markets into a tailspin. Skeptics contend it is hard to predict what the world will look like tomorrow, let alone 12 months from now.

Indeed Birinyi Associates' Laszlo Birinyi, whose stock market forecasts were widely followed, told clients this month that he would not be making predictions this year.

"There are too many variables which are beyond our comprehension," he wrote in his January client newsletter.

Even Wien and Doll acknowledge this annual exercise has grown more difficult in recent years, as debt crises, market volatility and political upheaval throw Wall Street's best-known seers for a loop.

"The uncertainty associated with emerging markets growth, upcoming elections and the European debt situation make the forecasting exercise especially precarious," Doll wrote in his latest outlook.

Wien, who served as U.S. strategist at Morgan Stanley for 21 years before moving to Blackstone, and Doll, who was president of Merrill Lynch Investment Management before it merged into BlackRock, have made their annual predictions a widely anticipated event on Wall Street.

So have others, like Goldman Sachs Asset Management's James O'Neill and former Merrill Lynch strategist Richard Bernstein, who now runs a self-named investment management firm.

But despite their experience and pedigrees, Wall Street gurus are wrong as often as they are right.

CXO Advisory Group LLC, a research firm that tracks more than 60 market "gurus," calculated the average forecaster is accurate only 48 percent of the time -- roughly the same odds as a coin toss.

"You might find them interesting for other reasons, but I wouldn't put much stock in their predictions," CXO Advisors chief executive Steve LeCompte said.

The Federal Reserve Bank of Philadelphia's Livingston Survey, which summarizes economist forecasts, came within seven points of the year-end close of the S&P 500 once in the past six years -- essentially spot on.

But it has also been off by more than 60 points three times and, in 2008, when the banking system nearly collapsed, it was off by 147 points, or 9 percent, from the actual close.

Last year the survey predicted a close of 1298.5 points, which was 41 points, or 3 percent higher, than the actual close. The S&P 500 was flat for the year.

"I think forecasting has always been hard, but the market's volatility has made it a bit harder," said Tom Stark, who oversees the Philly Fed survey.

Wien last week told Reuters that over the years his forecasts have panned out about half the time. Lately, though, Wien has been wrong more often: in 2010, only two and a half of his 10 annual predictions came true.

He rightly said President Obama would endorse legislation favoring nuclear energy and that financial services regulatory reform would be softer on Wall Street than originally feared.

"Secular trends are much more fragile than they used to be, and that has made forecasting much more difficult," said Wien,

"Who would have predicted the Arab Spring? That took everyone by surprise," he said, referring to a wave of protests that toppled rulers in Africa and the Middle East last year.

Wien was five for 10 in his 2011 predictions, including four predictions that were partially correct.

For example, he predicted that the price of corn would reach $8.00, while wheat and soybeans would hit $10.00 and $16.00 respectively. While corn did hit the $8.00 mark during the year, soybeans and wheat did not reach such levels and thus Wien got half that prediction correct. Wien's predictions for 2012 include his view that U.S. company earnings will push the S&P 500 up 11 percent, Syria's Bashar al-Assad will lose power, and that the U.S. Congress will finally come together and tackle the deficit.

These forecasts are not a blueprint for investors, Wien said, but "are designed to get people thinking about some issues they might not be thinking about."

Doll predicts the European debt crisis will begin to ease, that the U.S. economy will muddle through and that U.S. Treasury rates will rebound.

Doll said he has been fairly accurate most years, including seven right out of 10 in 2010. He accurately predicted, for example, that U.S. economic growth would exceed 3 percent.

For 2011, Doll predicted accelerating economic growth, double-digit stock growth, 3 million new jobs and an all-time high for corporate earnings. While fourth-quarter results are pending, the companies in the S&P 500 is on pace to set a new high in earnings.

But his S&P 500 forecast was too optimistic by 100 points, growth slowed in 2011 and by November only 1.45 million new jobs had been created.

CXO Advisors, which gives Doll an above-average accuracy rating of 54 percent, say because his predictions focus on broad trends but are light on specifics "it is relatively difficult to assess the accuracy of Mr. Doll's market projections because of conditionalities and vagueness," the firm said.

(Editing by Jennifer Merritt and Walden Siew)