

UP Front

REALITY CHECK

THE 10 WORST ECONOMIC PREDICTIONS ABOUT 2005

As the year of Katrina, Google, and \$70 oil draws to a quiet (we hope) close, let's stop to reflect on the biggest forecasting misses. Here are our picks in reverse order:

10. "If Microsoft gets serious about search—and there is every reason to believe that it will—Google will need brilliant strategy and flawless execution simply to survive."

—Charles H. Ferguson, author, *Technology Review*, Jan. 1, 2005



»**REALITY:** Google didn't just survive in 2005. It ruled. In the most recent quarter, profits soared 633%, and revenues almost doubled. Microsoft? Profits gained 24%, revenue rose 6%.

9. "The big, big story of 2005 could be the collapse of the dollar."

—Peter Schiff, founder of *Euro Pacific Capital* in Newport Beach, Calif., Jan. 2, 2005

»**REALITY:** Collapse? The dollar surged 14% against the Japanese yen and 13% against the euro from the start of the year through mid-December.

8. Chinese Internet stock NetEase.com—"organic and innovative"—will outperform the market.

—Richard Ji, Jenny Wu, and Mary Meeker, *Morgan Stanley* tech analysts, initiating coverage on Sept. 12, 2005

REALITY: In the first three months after Meeker's team recommended NetEase, the company's shares fell 25%. Oops.

7. Calpine, the big electricity generator, "is making progress with a big financial restructuring. If they just liquidated the company, you'd get \$6 a share."

—David J. Williams, portfolio manager of the *Excelsior Value & Restructuring Fund* at U.S. Trust, Dec. 27, 2004

»**REALITY:** Calpine's shares were trading around \$3.50 when Williams made them one of his top picks for 2005. They're trading now for 31¢—down 91%.

6. Overproduction by OPEC could cause a steep decline in oil prices: "We are concerned about the future. We are concerned about a new severe drop in price like we have witnessed in recent days."

—Iranian Minister of Petroleum Bijan Zanganeh, Nov. 22, 2004

»**REALITY:** Oil prices were about \$50 a barrel when Zanganeh fretted about a severe drop. They hit a record of \$70 a barrel in the summer before easing back to "only" around \$60 by yearend.

5. Sales of gold by central banks could seal its fate as an economic relic of the Old World.

"The pillars of the market

are crumbling."

—Andy Smith, a gold analyst at *Mitsui Global Precious Metals* in London, May 3, 2004

»**REALITY:** Those golden pillars didn't crumble in 2005. They turned into rocket boosters. Gold rose 16% to a 22-year high in mid-December.

4. Mechanics at Northwest Airlines will win a strike because other workers will stand up for them. "We know we're not in this alone."

—Ted Ludwig, president of Local 33, *Aircraft Mechanics Fraternal Assn.*, Aug. 9, 2005

»**REALITY:** Northwest had little trouble finding replacements for the 4,100 strikers, and no other unions honored their picket line. The continuing strike is considered a near-total failure.



3. The Dow Jones industrial average will finish 2005 at 8,000 points.

—Bernie Schaeffer, *Schaeffer's Investment Research*, Dec. 27, 2004

»**REALITY:** Technically speaking, this prediction could still come true, but it would require the Dow industrials to plummet 26% in the next two weeks. Anyone willing to predict that?

2. 2005 will be "a year of economic difficulty."

—A majority of the American people; 54% of respondents to a *Gallup* poll, Dec. 17-19, 2004

»**REALITY:** For many, it was a difficult year. But the unemployment rate is just 5%, well below its 30-year average. The economy is growing rapidly. And household wealth is at an all-time high. If 2005 was "difficult," then what would you call a recession?

1. The U.S. will have fewer hurricanes in 2005 than in 2004.

—Tropical Meteorology Project of *Colorado State University*, Dec. 3, 2004

»**REALITY:** 2005 broke all hurricane records. Including Katrina and Rita, there were 14 Atlantic hurricanes, 7 of them classified as "intense." The Coloradans had predicted six—only three intense. Granted, predicting hurricane season half a year before it warms up is no easy task. But guys, come on.

—Peter Coy



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