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America's 'Hollywood economy'

Where the future is all in your head, manipulated by master illusionists

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ARROYO GRANDE, Calif. (MarketWatch) -- "Nothing is what it seems:" That rule fits Hollywood. It also works for the illusions of Wall Street. Every illusionist knows that your brain secretly loves being misled, deceived and manipulated by fantasies. Want proof? Let's begin in Hollywood ...



"The Illusionist" is a brilliant new film about Eisenheim, a magician who fascinated Vienna a century ago. "Nothing is what it seems" warns the subtitle. Oh, the clues are everywhere. But not obvious till later when your brain retraces the unfolding drama.

What is it about our brains that pull us inexorably into this shadow world, where we willingly accept as "real" a world of illusions where nothing really is as it seems? When enter a dark theater, once inside you know your brain is programmed to trade reality for a world of fantasy and illusion, even untruths and deceit. You know you will not only be misled, you insist on being deceived. In fact, you will feel cheated if you are not deceived, if you figure out the film's plot too easily!

Admit it, your brain really loves being misled, lied to and deceived! Why? Because it is programmed to deny reality. Because it delights in being tricked by fantasies. Call it 'entertainment' if that helps rationalize your denial. But the truth is: Your brain inexplicably draws secret, dark pleasure from being deceived, misled and manipulated.

Brain works same way when investing

Unfortunately, your brain functions the same way in the so-called real world of politics, economics and investing. Hordes of illusionists wait for you to enter their dark theaters. Whether bear or bull, they know your brain will automatically suspend it's reasoning powers for the pleasure of indulging in a well-crafted illusion that fits neatly into your brain's preprogrammed mindset of illusions:

- ?? Bear brains. Seriously, it really doesn't matter whether you have a bull brain or a bear brain. A month ago I reported that the economy had passed a "tipping point" and was collapsing into a bear market, a scenario similar to the 2000-2002 recession. Bears agreed, bulls objected. [See previous Paul B. Farrell.](#) 
- ?? Bull brains. Two weeks later, I reported on the opposite scenario, suggesting that 2007 might become a bull market, like 2003's surprise bull market. But that was totally unacceptable to bears. One college professor said my report was "shameful stuff after all the doomsday forecasts of the past year." [See previous Paul B. Farrell.](#) 

The truth is, a bearish brain can only "hear" bearish predictions and growls at bullish ones. Visa versa with bullish brains. Brains are wired one way or the other. We screen out contrary facts and opinions. We only accept opinions that reinforce our preprogrammed illusions. Bull or bear, all investors are trapped in their cocoon of illusions, where economic predictions and market forecasts have far more power than

any created by Hollywood's best illusionists ... and they're far more elusive until it's too late.

The illusory world of economic illusionists

Legendary management consultant Peter Drucker once said: "Anybody who tells you that he understands the American economy ought to be sent to teach modern dance." Back at the peak of the dot-com mania, another consultant researched the accuracy of leading forecasters over a few decades. William Sherden's findings were summarized in "The Fortune Sellers: The Big Business of Buying and Selling Predictions."

When I asked Sherden if his conclusions still fit today, he said: "They are timeless. The political influence on predictions is basic human nature. I see no way that economic forecasting can improve since it is trying to do the impossible."

Get it? Whether you are a bull or bear, optimist or pessimist, predicting the future of the economy is an impossibility, a total illusion. Listen to Sherden's 10 findings in The Fortune Sellers:

1. The forecasting skill of economists is on average about as good as guessing. In fact, predictions by the politically driven Council of Economic Advisors, Federal Reserve Board and Congressional Budget Office were often worse than guessing.
2. Economists cannot predict the turning points in the economy. Of 48 predictions made by economists, 46 missed the turning points.
3. Economic forecasting accuracy declines with longer lead times.
4. No economic forecasters consistently lead the pack in accuracy.
5. No economic ideology consistently produces superior forecasts.
6. No economic forecaster has consistently higher forecasting skills predicting any particular economic statistic.
7. Consensus forecasts do not improve accuracy (although the press loves them).
8. Psychological bias affects forecasters and their forecasts. Some economists are naturally optimistic and bullish, others are consistently pessimistic bears.
9. Increased sophistication provides no improvement in forecasting accuracy. Remember the Long-Term Capital Management hedge fund? Two brilliant Nobel Economists backed by Wall Street's elite nearly sabotaged the world economy.
10. Finally, Sherden says there's no evidence that economic forecasting has improved in recent decades. In fact, forecasting appears to be deteriorating as partisan politics, Wall Street gaming and unpredictable global events invent new illusions.

And so my dear investors: "Nothing is as it seems" remains rule No. 1 when it comes to all economic predictions you rely on for your investment decisions. And the corollary? Rule No. 2: "All economic predictions will fail you." Your best strategy, whether bull or bear, is to trust no one, and question all predictions, especially those your brain is convinced are "true."

Remember, you live in a world full of illusions created by illusionists who know you better than you know yourself. They know your brain derives secret pleasure from being deceived, lied to and manipulated. They know that due to some mysterious design flaw, your brain gets a perverse thrill when you enter the dark theaters of Hollywood, Wall Street and Washington. Thousands of illusionists know you are preprogrammed in such a way that you are vulnerable to their illusions, untruths, deceptions and manipulations.

Wake up ... nothing is what it seems. Whether you have a bear brain or a bull brain, in today's wonderful world of illusions, you cannot time the market and you cannot trust any economic predictions from any illusionist. But you can protect yourself, with a well-diversified portfolio that'll win in bear markets and bulls. [See previous Paul B. Farrell.](#)

And if you think I'm just an illusionist, prove me wrong, go see "The Illusionist" film in a dark theater, I'll bet you can't figure it out ... till it's too late! ■