

Duvall & Associates, Inc.

Taking Care of Business

FORECASTS WITH NO HISTORY

"We can't predict the future...and we want to know the answers."
Flaming Lips

In the not too distant past, history was extremely relevant. Relatively constant trends gave one confidence that the lessons of prior years would yield valuable insight in the future.

Hence, managers, analysts and business appraisers utilized predictive models founded upon the cement of historical data.

Quite often, the projection was simply reduced to a "weighted average" of historical period numbers wherein more recent data was allocated a higher "weight" than prior figures - period results added together and divided by the sum of the weights. The conclusion was often regarded as sacrosanct in forecasting the near term future.

First of all, the weighted average model is not really reliable if the past trend is consistently charting up or down. It works best in a consistently even or gentle-rolling graphing of data points.

But more importantly, (for many industries) the summer of 2008 witnessed a tear in the fabric of business as we knew it, and the financial world was altered to an as yet un-measurable degree.

The previously standard bell-curve model was often turned upside down into a somewhat flattened "U". Analysts have been forced to circular-file comfortable predictive models and become more studious in analyzing more current factors.

Obviously, it is substantially more difficult to look forward with confidence when planted in a data-field of uncertainty - a time and place without historical reference.

The past is not totally irrelevant - but be very wary of the current value of historical statistics.

The US debt rating has recently been downgraded for the first time in history, and that is just one of the many new financial realities we will be presented with as we slog our way out of the monetary mud-hole dug by blind & greedy predecessors.

Alan Duvall is a certified public accountant in Dayton. Contact him at Alan@Duvallcpa.com.