

INVESTING AND SUPERFORECASTING

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OUTLINE

What is Superforecasting?

and how is it done?

Superforecasting and Investing

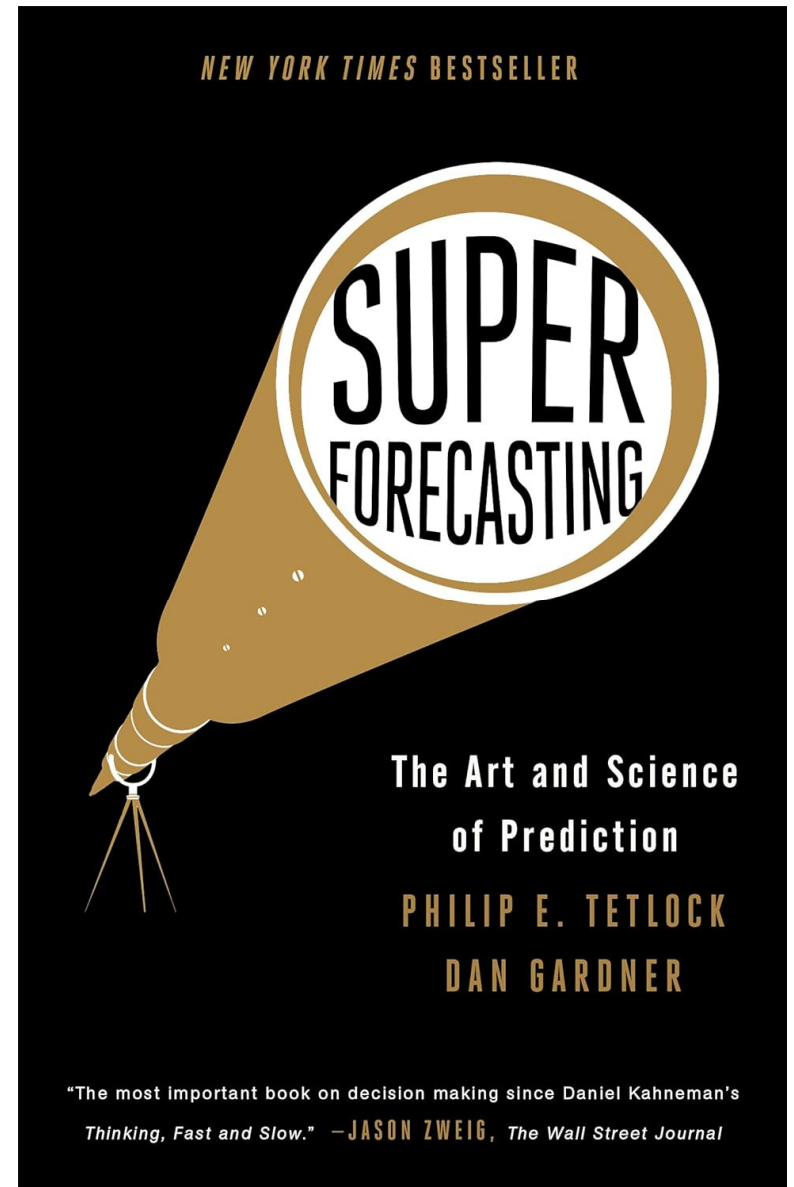
similarities, differences, possibilities

SUPERFORECASTING

Most predictions are not better than random

Good predictions are possible

Investing and Superforecasting



WHY PREDICTIONS ARE BAD?

People sell beliefs, agendas or intuition

Biases

Single idea - media

People do not own predictions

People do not revisit predictions

People do not measure predictions

* People are not trained in prediction methods

IMPROVING PREDICTIONS

Predictions should be clear and specific both in content and time

Predictions should be evaluated at the deadline

Predictions should be measured

* Prediction techniques

MEASURING PREDICTIONS

Brier Score - Difference between a predicted probability and the actual outcome (simplified)

Predict: 20%, outcome: 0, Brier score: 0.04

Predict: 20%, outcome: 1, Brier score: 0.64

Lower is better

Problem?

Sun will rise tomorrow: Predict: 100%, outcome: 1, Brier score: 0

Everyone predicts 1, so no predictive value

Brier Skill Score – Difference between your BS and BS of others

Problem?

Need other predictions of the same event

PREDICTION METHODS AND TECHNIQUES

General

- Open-minded
- Careful
- Curious – multiple info sources
- Self-critical
- Focused

Methods

- Disassembling
- Inversion

Probabilistic methods

- Outside view baseline
- Inside view adjustments
- Adjustments with time

PREDICTION GROUPS

- Predictions from groups better
- People don't like to be wrong
- People don't like to be judged / evaluated
- People somewhat like competing

[Good Judgement Open](#)

[Good Judgement \(Pro\)](#)

[GJ Pro vs FT](#)

CommunityCollege asks:

Who will win the Democratic primary for the US Senate election for New Jersey in 2024?



Forecast

When will the year-over-year percentage change in the Personal Consumption Expenditures (PCE) Price Index Excluding Food and Energy (aka "Core") next be 2.000% or lower?



Forecast

What will be the weekly average interest rate for 30-year fixed rate mortgages in the US for the week ending 21 March 2024?



Forecast

SUPERFORECASTING AND INVESTING?

Investing not the same as predicting

Similarities

Differences

Possibilities?

SUPERFORECASTING AND INVESTING - SIMILARITIES

Biases

Owning investing decisions

Revisiting investing decisions

Measuring investing decisions

Decision vs outcome

Similar difficulties

Groups may help

Forums

* Using probabilistic methods

Predicting macro events

Inflation rate, Fed rate

SUPERFORECASTING AND INVESTING - DIFFERENCES

Fundamental investors do not aim to predict exact macro or company events

May not matter if Apple EPS is \$2 or \$2.10

Knowing exact next Q revenues may not provide alpha

Closer probability of rare event may not be actionable enough (5% vs 8% product failure probability).

Mapping investing to forecasts is not simple

For good investment performance want to predict stock performance

Different timeframes

Forecasting works best within 1 year

Investing may be looking at 5-10 years

SUPERFORECASTING AND INVESTING – POSSIBILITIES

FinPredictions

Attempt to create Superforecasting like forum for financial predictions

Closed: not enough interest

Learned lessons about differences

Investing + Superforecasting = ❤️?

Questions that can be predicted and affect investments significantly?

Actual GJOpen question: Tesla EV production in 201X?

Possible 2024-2025 question: Tesla humanoid robot production?

DISCLAIMERS

Not a financial or investment advice.