



~ Ang Kok Heng

From The Desk of CIO

## Experts Can Be Wrong Too

“Prediction of the euro’s imminent doom reached fever pitch in mid-2012, but the experts underestimated the political will in Europe to keep the euro together. While the risk of a near-term catastrophe has been averted for now, they warn that the Eurozone is not out of the woods.”

**“Eurozone apocalypse averted” by Noah Barkin, The Edge Malaysia Dec 31, 2012**

The world did not come to an end on 21 Dec 2012; neither did the collapse of the euro happen as predicted by many economists middle of last year.

In a lead story, The Edge Malaysia featured the various negative comments at the height of the European crisis (see Table 1).

The negative comments made by the “heavy-weight” economists had strong influence on other “lighter-weight” economists who felt the pressure to err negatively too.

Whenever the media highlighted those doom reports/comments, the whole world would subconsciously turn negative. As a result, the threat and the knock-on effects arising from the Eurozone debt crisis has suddenly mirrored an unresolved global calamity and at that moment some even believed that the euro crisis would be worse than the Lehman Brothers-led crisis.

Those who shorted the markets based on the doom forecasts suffered huge losses. Meanwhile, investors who heeded the negative news and avoided investing in risky assets (e.g. equities) suffered opportunity loss.

When the dust settled, the bond yields of the troubled countries like Greece, Italy and Spain – a market gauge of how risky these countries are – fell below its critical 7%-mark.

There are always many possible outcomes in attempting to overcome an economic crisis and the kind of interference and policy change to be implemented by the governments is always difficult to predict. Though we must recognise the problem, we must also bear in mind that a crisis is normally being over-played by the opportunists.

Table 1: Doom Statements by Experts

Experts	Comments
Paul Krugman (Nobel Prize winner)	"Suddenly, it has become easy to see how the euro .....could fall apart with stunning speed, in a matter of months, not years." appeared in The New York Times "Apocalypse Fairly Soon" in May '12
George Soros (Billionaire investor)	"Germany had a mere three-month window to avert European disaster." told a conference in Italy in early July '12
Willem Buiters (Chief Economist at Citigroup)	Raised the probability that Greece would leave the euro to 90%
Capital Economics (a UK-based consultancy)	Forecast one or more countries would leave the single currency bloc by the end of 2012.
Nouriel Roubini (nick name Dr Doom, New York university professor)	Predicted that Greece will exit euro and 2013 "storm" may surpass 2008 crisis as the euro crisis will spread to US.

Source : The Edge Malaysia, PCM

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