ARTICLE:

Acting on Advice from Financial Journalists Can Be Hazardous to Your Financial Health

By Keith M. Lichtcsien, CFP®, AEP®

One commonly held misbelief is that the more information we get and the more up-to-the-minute it is, the better we are able to make good decisions. To some this may seem to be axiomatic, yet when it comes to investing this may not hold true.

Reflecting upon the times during 2016 when many investors acted to their own detriment serves to strengthen my long-held view about this misbelief. Specifically I am thinking about the typical news reports, cable TV investment reports, and investing articles (via print and the internet) with which we are bombarded on a daily basis; plus, think about all the marketing delivered daily to our ears and eyes. In general, the news and data supplied by financial journalists can be as harmful as helpful to one's financial health.

How so? Consider profiles of money managers and mutual funds. The profiles and articles in financial magazines and newspapers tend to highlight "hot" managers or funds – those that had outperformed their peers or the "market" in the most recent short time period. Professionals know that three months of investment results is statistically irrelevant and of no utility or value, yet the "hot" managers are often interviewed and quoted as if they were certified geniuses. It is interesting that seldom is the next quarter's genius the same as the last quarter's, while (check it out yourself) typically elsewhere in the publication you can find large advertisements for the same "hot fund" or investment companies. Anyone who invests with the "fund du jour" is, at the very least, likely to experience regression to the mean over time – resulting in future returns below those of their peer group or the broad market.

To be clear, by themselves, one- three- and five-year rankings provide no predictive value, yet we know that they are the basis for most people's decisions about where (and even when) to invest.

Meanwhile, when we aren't reading about "hot" managers, we are hearing about what the stock market did (or is doing) today. To a statistician, today's price movements are meaningless white noise, indicative of nothing significant about the future. The markets always go up and down in the short run as commentators continuously try to explain the causes of these random movements. Many people sense the lack of value in the explanations, yet they cannot keep from listening to the earnings report, the jobs report, or speculation about what the Federal Reserve may, or may not do – all of which have affected some analyst's investment outlook. Perhaps this week's focus is on the economy and the debt of Greece, and perhaps next week it will be suggested that we should fear happenings in Chinese currency or their stock market.

As markets rise and significant new money is chasing returns, the news reports are telling us how the markets have been going up, up, up; and when markets are falling (and it is generally a better time to invest new money) the news reports are telling us all the bad news about market losses and that the markets are going down, down, down. It is no wonder why such a high percentage of investors experience results significantly below those of the broad market, and often the investments they buy.

There may be meaningful information among the chatter, but it is difficult to glean amid the noisy background. As a story I heard goes, back in the late 1990s, a particular analyst, who believed tech stocks were overvalued, explained that one tech company's stock "had a market value which had reached approximately the same level as the entire yearly economic output of the nation of Iceland, plus a few 747 cargo jets to carry it all back to the U.S." Few were able to hear those types of messages through the overwhelming amount of positive media reports during that time period, and we all know what happened shortly thereafter.

Recently we were told that the current market rally is long in the tooth, having reached all-time highs; that the Fed is going to raise interest rates soon; that market valuations are kind of high; and of course, that certain fund managers did really well last quarter; while yesterday's market was either up or down. The problem is that we basically heard the same things last year and the year before (remember?), and as it always has over time, the equities markets (which is where common stock representing ownership of the world's most important companies trade), through both rises and drops, churned ahead to new highs.

We believe astute investors possess an important skill which empowers them to turn off the noise and implement a systematic, long-term and disciplined investment process. Short-term drops tend to become buying opportunities in the long run, and over time, the U.S. and global economies reflect the underlying growth in value generated by worldwide demand being met by hundreds of millions of people who go to work each day and build that value. Historically, while investor sentiment swings back and forth with the unhelpful prodding of journalists and pundits, success has been realized by those who have had a strategic plan and the discipline to implement it. When it comes to the markets, over time, having wisdom and perspective beats up-to-the-minute information.

And remember to always keep in mind that journalists are paid for your eyes and ears seeing and hearing what they are selling – not for providing professional advice.

If you have questions about this or other planning issues, please give us a call at 216-765-0121.