Rolf Dobelli may not be a household name, and the media would probably like to keep it that way. Mr. Dobelli, a Swiss researcher, has done extensive research on the negative impact of the media and news that potentially affects all of us. He has organized these potential negative effects into 15 points. We are going to take the next 5 months and cover 3 of his points in each of our monthly letters, while also demonstrating how it could influence your personal financial decision-making. Below you will find the first three.

### *1. News misleads us systematically*


*A Barron's cover in March 2007 giving its bullish outlook on the stock market. The S&P 500 would collapse by more than half in the following two years.*

We often believe that following the financial news gives us an advantage that can help us better forecast and time the direction of the market. But is this actually true?

For example, take CNBC, which is the primary source of financial news for many investors. Does the information CNBC provides actually add value for investors? Research conveys that it may not.

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A 2004 study analyzed the effects of CNBC interviews with company CEOs, and how the interviews moved the companies' stock prices. The study found that on the day of the interview, prices rose on average by 1.65% (Meschke, 2004). However, over the next ten days following the interview, the stock price fell on average by 2.78%. This suggests that while these CNBC interviews can pump up enthusiasm and encourage investors into buying the stock in the short-term, over a longer period these stocks may revert back to values before the media coverage.

In other words, it encourages us to invest impulsively instead of making reason-based decisions. This impulsivity may be detrimental to our long-term investing goals.

### *2. News is irrelevant*

The financial media spends much of its time reporting on economic news: unemployment reports, Federal Reserve announcements, and the like. Yet to what extent does this actually matter to investors?

The graph below shows U.S. gross domestic product against the S&P 500 over the last 14 years. As you can see, even as economic growth (as measured by GDP) has been fairly stable over that period, the stock market has oscillated wildly. Between 2000 and 2010, the production of the US economy increased by 46% – yet over that same time period, stocks declined by 23%.

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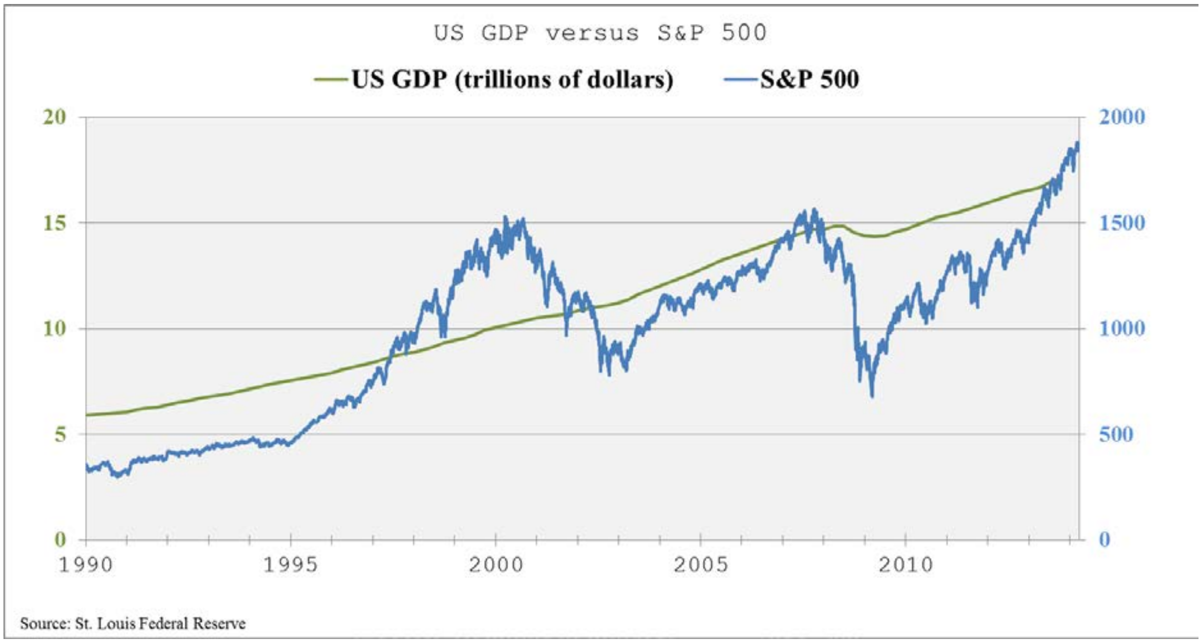


For investors who wish to participate in the stock market for years or decades, economic news reported by the financial media provides little or no value. The relationship between the economy and the stock market is often incongruent, and at times the two even move in opposite directions.

Yet listening to media reports on the economy may lead us to invest based on **fear and greed**, rather than rational evaluations regarding the value of specific companies. Remember, stock prices are not derived solely from today's economic news.

### *3. News limits understanding*

News may distract us from established rules-based investment strategies that have demonstrated sound returns over time. Negative or positive headlines may undermine our previously stated rules-based methodology. Instead of owning financial assets which can help us retire comfortably or provide for our children's education, we risk buying into bubbles or speculative investments. A study by Barber and Odean (2008) finds that individual investors are more likely to invest in attention-grabbing and headline-making stocks than institutional investors. Because the individual investor is unable to evaluate all of the thousands of stocks traded in the U.S., the investor is often goaded into buying the most attention-grabbing stocks covered by the media.

Investing in these headline-making, often media-covered stocks could be detrimental to your portfolio. In fact, stocks receiving high levels of media coverage historically have both lower returns and higher volatility than stocks with less media coverage (Fang and Peress, 2009).

The study found that stocks receiving media coverage underperformed stocks receiving no media coverage by 0.20% per month, which is equivalent to around 2.4% per year. That 2.4% is hugely significant over a lifetime of investing. For example, $50,000 invested now at 10% annually will give you $872,000 in 30 years. What if we decrease the return by 2.4%, to 7.6%? Then you only have $450,000 in 30 years – $422,000 less.

| | Returns[1] | Volatility[2] |
|---|---|---|
| **Typical Stocks with no media coverage** | Higher | Lower |
| **Typical Stocks with high media coverage** | Lower | Higher |
| **Typical Tech stocks with high media coverage** | Much lower | Higher |

Source: "Media Coverage and the Cross-Section of Stock Returns", table IV and table IX

The underperformance of highly media-covered stocks is even greater than 0.20% for certain stock sectors, particularly highly volatile sectors, like technology. These stocks historically underperform stocks with no media coverage by a whopping 0.65% to 1% per month (Barber and Odean, 2008)[3].

Considering the advice of the financial media when it comes to buying stocks may prove to be very costly to your portfolio over the long run. Investors who include research resources that provide coverage for lesser-known stocks may significantly add value to their investment strategy.

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As always, please feel free to call me with any questions.

My very best,

Derrick Sikes

Senior Vice President, Investments

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*Hypothetical examples are for illustrative purposes only and do not represent any investment or investor experience. Individual results will vary.*

*The **S&P 500** is an unmanaged index of 500 widely held stocks that's generally considered representative of the U.S. stock market. Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary.*

[1] Returns as measured by alpha calculated through CAPM, Fama-French 3 factor, Carhart 4-factor, and 5-fact including Pastor Stambaugh (includes liquidity variable).

[2] Specific volatility adjusted for market risk.
[3] Stocks with low analyst coverage, more individual as opposed to institutional ownership, and high idiosyncratic volatility.
[4] Written by Chris Whatley with R.C. Whatley & Company

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