SIKES FINANCIAL GROUP OF RAYMOND JAMES®

"No News, is Good News" Part 2

Dear _____________________,

This is the second piece of our series expanding on the potentially negative effects of the news media. Three additions are listed below, and we will simply allow the content to speak for itself.

A June 2005 Time magazine cover touting real estate, two years before property values crashed.

4. News is toxic to your body

News of all kinds, but especially financial news, is created in a way to draw attention. To do so, they will often report the most fear-inducing news. Studies have shown that negative news can cause a decrease in happiness and an increase in anxiety (Ragonesi et al., 2008). It can place our body in a state of chronic stress, which damages both our physical and mental well-being over time (Dobelli, 2010).

It's natural for investors to feel fearful and anxious when it comes to financial news, especially when it concerns their own money. But worrying about markets on a day-to-day basis can be counterproductive and harmful.

5. News massively increases cognitive errors

> *"You decide gold is a good bet to hedge against inflation, and suddenly the news seems to be teeming with signs of a falling dollar and rising prices down the road. Or you believe stocks are going to outperform other assets, and all you can hear are warnings of the bloodbath to come in the bond and commodity markets."*
>
> Jason Zweig (*The Wall Street Journal*, 2009)

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The quote above describes *confirmation bias*, the tendency of people to use new information to confirm their existing beliefs, and to disregard or ignore any information that opposes their beliefs. Many investors believe that by reading or watching the financial media, they have more information to look at every side of the financial markets and make rational, informed decisions. However, this is often not the case.

Listening or reading to the financial media might just strengthen any beliefs we already have. A 2010 study showed that investors exposed to financial message boards on the Internet used the available information to confirm their preexisting beliefs (Park et al., 2010), not to challenge those beliefs or make new ones. Over time, they became more and more overconfident in those beliefs. They began to have higher expectations about their own investment returns, but in actuality performed worse.

This runs contrary to the common idea that more information makes us more informed, better investors. In reality, too much information can have the opposite effect – it can make us biased, overconfident, and irrational.

Another type of bias, which Dobelli refers to as *story bias*, also plays a part in investor behavior. In investing terms, this means that we are biased toward news that can fit into part of an overarching "storyline", leading us to believe in things that "make sense – even if they don't correspond to reality" (Dobelli, 2010).

6. News inhibits thinking

News makes us shallow thinkers. Because news pieces are written to grab attention, they lack depth and prevent us from thinking clearly. It can make us fall for easily comprehended narratives – the *story bias* discussed previously.

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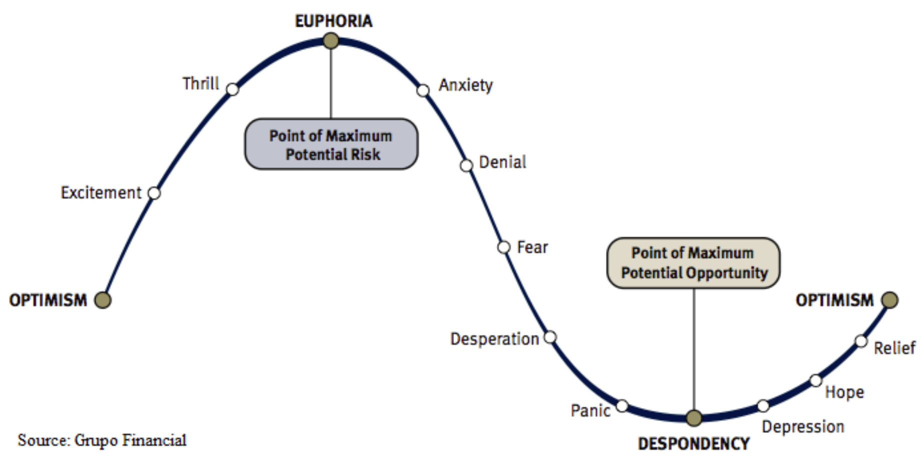
This is most visible in the financial markets in what we call the "cycle of market emotions". Financial media is optimistic during market peaks (when risk is high) and pessimistic during market bottoms (when risk is low).



Media has been shown to have a significant impact on investor sentiment (Tetlock , 2007), fueling optimism or pessimism. Investors get caught up in these emotions.

As a result – when markets are bullish, the media exacerbates our fear of missing out on gains, and we may buy into the market just when risk is highest. When markets are pessimistic and bearish, the media can influence investors to keep their money out of the market, typically when risk is lower and potential reward is greater.

By heeding the reports of the financial media, investors may become more vulnerable to large declines and may become more likely to miss out on large gains.

The graph below shows investor sentiment from 2007 to 2010[1], the period of our latest recession. Investor sentiment was bullish in early 2008, just before the market crash. And investor sentiment was bearish in early 2009, just before we had one of the best bull runs in recent memory.

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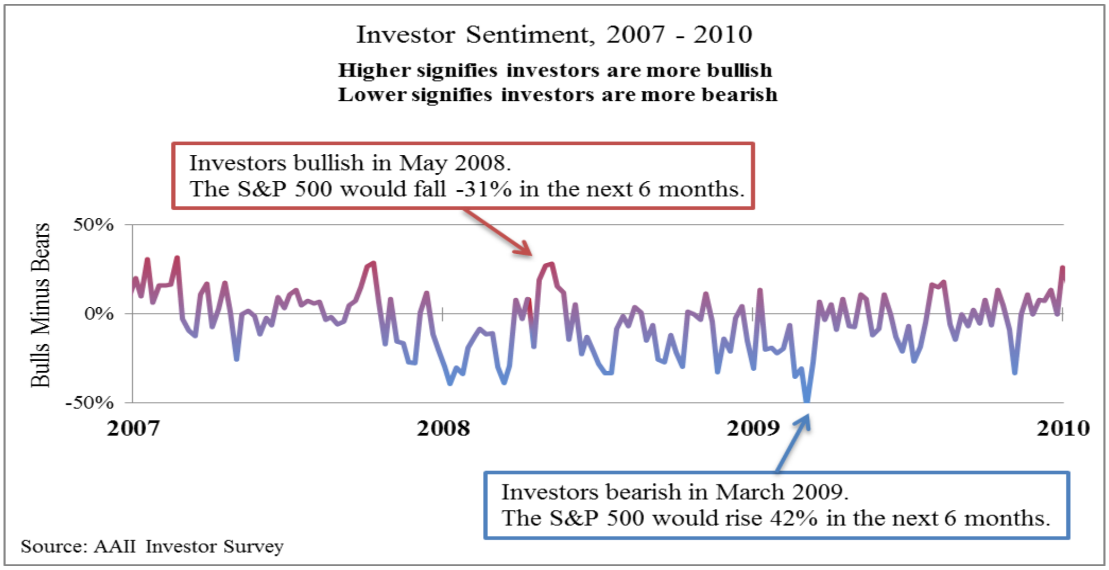

Next month, we will tackle additional potentially detrimental effects of exposure to the financial news.

As always, your feedback and questions are welcomed.

My very best,

Derrick

[1] As measured by the AAII Investor Survey

[2] Written by Chris Whatley with R.C. Whatley & Company
*[3] 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. Opinions expressed are not necessarily those of Raymond James & Associates.Information contained was received from sources believed to be reliable, but accuracy is not guaranteed. Investing always involves risk and you may incur a profit or loss. No investment strategy can guarantee success*

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