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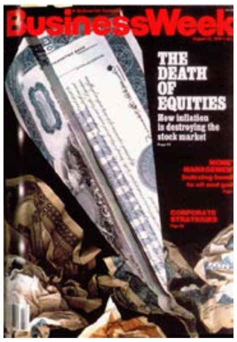
“No News, is Good News” Part 3

This is the third piece in our series discussing the detrimental effects resulting from an overreliance on financial media, in regards to both your physical and financial health. Don’t hesitate to let us know if you have any questions or concerns given this unique topic of discussion.



An August 1979 BusinessWeek article proclaiming “The Death of Equities”. The value of the S&P 500 would triple over the subsequent decade.

7. News changes the structure of your brain

> “Information overload” is one of the biggest irritations in modern life. There are e-mails to answer, virtual friends to pester, YouTube videos to watch and, back in the physical world, meetings to attend, papers to shuffle and spouses to appease. A survey by Reuters once found that two-thirds of managers believe that the data deluge has made their jobs less satisfying or hurt their personal relationships. One-third think that it has damaged their health. Another survey suggests that most managers think most of the information they receive is useless.
>
> \- *The Economist*, 2011

A common and costly delusion of modern society is the concept that more information is always better. But does all this easily acquirable knowledge actually translate into success? Maybe not. In fact, an overload of information may actually be detrimental – it can lead to increased anxiety, sleeplessness, self-doubt in decision making, and an addiction-like craving for more information (Goulding 2001).

Whereas those who have too little information are paralyzed because they fail to understand their options, those who have too much information are paralyzed because they have too much to consider. Investors today are bombarded with streams of financial information – economic data, stock prices, corporate earnings, advice from third-party “experts”, international news, etc.

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As if this wasn't bad enough, the individual investor is also exposed to countless financial instruments, including individual stocks, funds (such as ETFs or mutual funds), commodities (such as physical gold or gold futures), fixed-income securities (such as bonds or annuities), and so on. How do you know which of these options is best for you? Our job as your financial advisor(s) is to relieve this burden. We attempt to pore through the deluge of data so we may understand what's best for you given your individual circumstances.

8. News is costly

We live in a time where information is cheap, but people's attention and time are more valuable than ever. You certainly don't want to waste your time on something that provides little or negative value to you. Financial media doesn't just cost the time you spend watching or reading it. It can tax your additional time in the form of distraction and anxiety, and the opportunity cost of doing the things that matter most to you.

9. News disconnects the relationship between reputation and achievement

You may recall the Enron scandal and the company's subsequent bankruptcy. Enron was an energy company that, by the early 2000s, had gotten involved in trading risky financial derivatives that few people outside the company really understood. If you asked anyone at that time how Enron made its money, they may have been hard-pressed to give you an answer. Yet the stock price kept rising and rising, from $20 in 1997 to $90 in 2000.

The financial media, the supposed watchdogs of the industry, were largely positive on Enron. It didn't matter that no one really understood how Enron worked. All that mattered was that the stock price kept going up. But behind the scenes, Enron was incurring huge debt and heavy losses, hidden behind a veil of accounting fraud.

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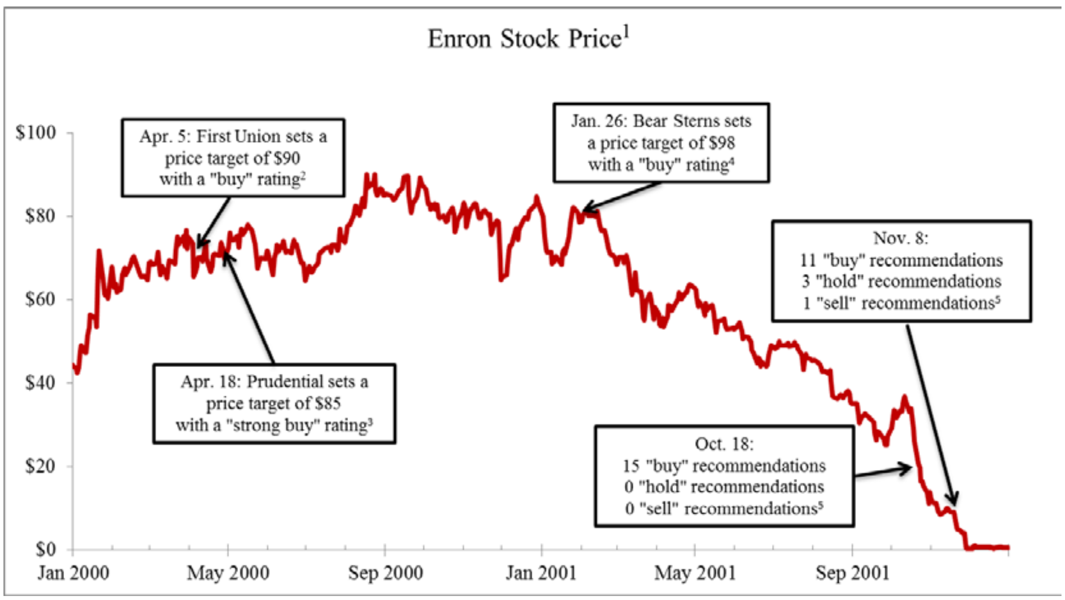
In February of 2001, *Fortune* Magazine named Enron the "Most Innovative Company in America" for the sixth straight year, as well as ranking it in top five for "Quality of Management" (MIT 2006). The stock was priced near $80 at the time. By October of the same year, Enron's accounting fraud was revealed. And in December, Enron filed for bankruptcy, with the stock price trading at under $1.

Wall Street analysts were complicit as well. In 2000, no less than 14 analysts stated or reiterated "buy" or "strong buy" ratings on Enron, when the stock price was trading in the $80 to $90 range, compared to 0 "sell" recommendations (Briefing 2014). The chart below shows the performance of Enron stock up to its bankruptcy, and some of the analyst recommendations given out during that time.



Many Wall Street analysts remained bullish on the stock until the very end. Analysts at RBC Capital Markets and UBS Warburg gave a "strong buy" recommendation on Enron, finally downgrading the stock when it was trading at $4.14 (*CNN Money* 2001). One UBS financial advisor was actually fired for recommending that his clients sell their Enron shares (*USA Today* 2002).

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This shows one of the basic flaws in financial media – it often generates them more subscriptions and advertising dollars to promote what the crowd is doing, so financial media often becomes nothing more than an echo chamber of the same thoughts. At the same time, those whose opinions may not be in sync with the "crowd" – like the UBS financial advisor – may in fact be punished for not following the herd.

As always, your feedback and questions are welcomed.

My very best,

Derrick

[1] Written by Chris Whatley with R.C. Whatley & Company
*[2] 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.*

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