# "No News, is Good News" Part 5

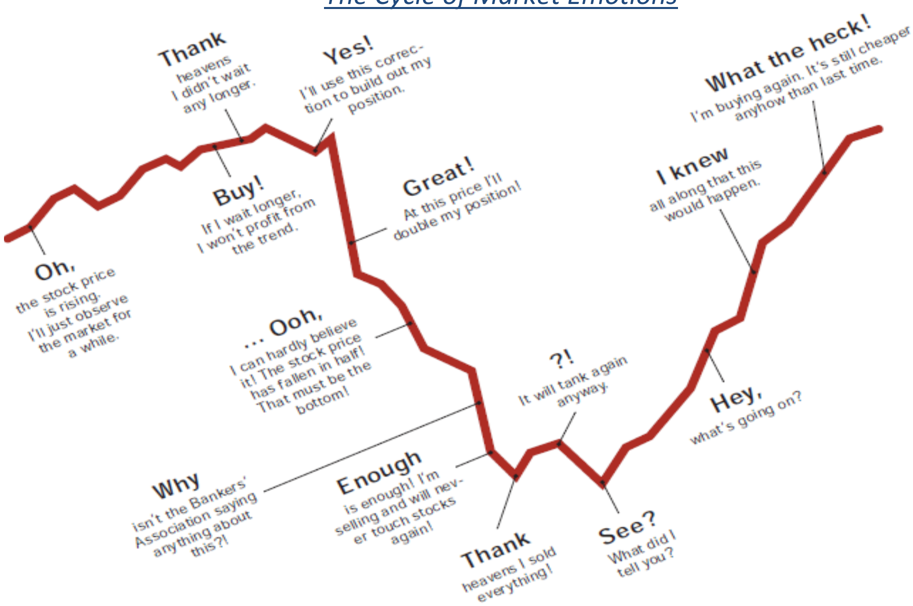
This is our final piece on the negative effects of financial media on your investments and your financial health.

Have you ever watched the old American television series *Dragnet*? The series enacts the cases of a dedicated Los Angeles police detective, Sgt. Joe Friday and his partners. The show took its name from the police term "Dragnet", which means a system of coordinated measures for apprehending criminals and suspects. *Dragnet*'s opening narration began with an ominous theme playing in the background. The song "Danger Ahead" is instantly recognized. As the song plays, the narrator states, "The facts you are about to see are true. Only the names have been changed to protect the innocent." The straightforward theme of "just the facts" symbolizes the kind of journalism that deserves our attention. Not statements manipulated and cherry picked to engineer our emotions, but just the relevant facts. Following a disciplined and evidence-based investment process is rarely exciting, but it may be the most prudent way to reach our financial goals. Danger may lie ahead for those who invest based on feelings of fear and greed.

### *13. News makes us impulsive*

In Rolf Dobelli's original article, this point was actually that "news makes us passive". But in cases of the financial media, it is often the opposite – news tempts us to act to make decisions on impulse and emotion instead of a rational, rules-based investing process.

*The Cycle of Market Emotions* [1]




Too often, investors who are usually logical and calm get caught up in the panic of a declining market or the euphoria of a rising market.

Listening to the financial media can make you feel like you're "missing out" on profit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opportunities, or that you're being left behind while everyone else is making money in the markets.

But those profit opportunities often are obvious only in retrospect. In the world of stock investing, past performance is rarely a good indicator of future results.

### *14. News gives us the illusion of caring*

As I discussed in our earlier letters, one of the flaws in modern thinking is the idea that more information is always more empowering. In reality, we have seen that an overload of information can make us irrational. It may actually make us worse investors.

The financial media bombards us with information that they claim we should care about. But in the long run, this ceaseless barrage of numbers and "expert" opinions can turn our eyes away from the news that really matters. The depth of knowledge has been sacrificed for the broadness of information.

### *15. News kills creativity*

When an investor decides to save a dollar, he has to choose where to park it – does he keep it in cash, in bonds, in domestic stocks, foreign stocks, gold, commodities, real estate, or something else? The Federal Reserve's interest rate policies and quantitative easing have made cash and bonds less attractive. Many investors remain fearful of directly putting their money in real estate, after what happened in the 2007 housing bubble. Gold and other commodities remain viable asset classes, but their underperformance over the past several years have left investors leery of them. At the same time, foreign stock markets have performed poorly due to fundamental economic weakness and geopolitical strife, and emerging markets have especially been hit hard.

Many investors turned back to U.S. stock markets instead. The S&P 500 is up roughly 180% since its bottom in March of 2009. Yet this has also led to a strange scenario – the stock market's bull run is not solely the result of faith in the domestic stock market, but also due to the lack of any desirable alternatives. In the past, bull markets have been accompanied by surges in positive investor sentiment, yet the bull market from 2009 until recently has been characterized by relatively low confidence in the stock market[2]. Despite investors' fearfulness, their search for good returns led many of them back to the same asset class: American stocks.

But this scenario may soon be changing. The Federal Reserve is winding down its quantitative easing program after nearly half a decade, and soon we may see interest rates and bond yields start to rise

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again. I cannot predict whether markets will go up or down. But I can say that risk levels are relatively elevated in the market, and that a small sell-off could spark a much larger correction in the stock market if investors begin to rebalance their portfolios toward more bonds and cash.

In times as these, it's more important than ever not to follow the crowd, and that's exactly why paying too much heed to the financial media may be dangerous. The financial media typically parrots the past; it rarely does a good job of predicting the future. For the most part, the financial media will be bearish after the market has already pulled back and bullish only after the market has run up. I am not necessarily advocating a contrarian strategy, but rather, investors should keep in mind that trying to predict the future with the past as is like trying to drive by only looking in the rear mirror. You shouldn't trust your financial security with the dangerous assumption that tomorrow will echo yesterday.

To reach one's financial goals, an investor does not necessarily have to be creative. A disciplined, proven approach to investing can be enough, but only if he or she is willing to stick with those rules over the long haul.

So after looking at 15 potentially harmful effects of the financial media on your financial health, what are some sensible alternatives?

I immediately see two. The first is to limit your exposure to financial media. Just briefly scan the headlines in your spare time, but do not get too caught up in watching market news from financial news outlets. And if you do, look at it from an outsider's perspective – understand that what you're seeing on the news will influence the mindset of other investors, while limiting the amount of information that affects your own thinking.

The second option is to read books which explain the world. The world is complex, and books have the ability to explore it with a deeper level of depth that television and newspapers are incapable of. Not just books on investments and business, but also books on history, biology, and psychology that will allow you to understand the broader context of financial markets. As Dobelli says[3], "Go deep instead of broad. Enjoy material that truly interests you. Have fun reading."

Limiting your intake of financial news may be difficult at first. Our brains have an inborn tendency to crave information, to search for facts and opinions wherever we can find it. Without it, we feel naked and weak. You may be tempted to turn on the television or go to your favorite news website. Limit your exposure.

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That being said, journalism remains relevant in any society. But we need more meaningful stories, more knowledge and wisdom rather than shallow pieces created to incite our emotions.

As always, feel free to call with any questions, and I greatly appreciate your business and the opportunity to serve you.

My very best,

Derrick

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[1] Zentrum für Banking & Finance, "Risk Profiling". 2013. Image retrieved from http://pd.zhaw.ch/publikation/upload/204622.pdf.
[2] As measured by the AAII Sentiment Survey. 2014. Data retrieved from http://www.aaii.com/files/surveys/sentiment.xls.
[3] Dobelli, Rolf. 2010. "Avoid News: Towards a Healthy News Diet". Retrieved from www.dobelli.com.
[4] *Written by Chris Whatley with R.C. Whatley & Company*
*[5] Raymond James is not affiliated with and does not endorse the opinions or services of Rolf Dobelli, Chris Whatley or R.C. Whatley Co.*
*[6] 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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