Johnston Investment Counsel
LIFE THE WAY YOU PLANNED IT.

The Harm In Financial Journalism

In most areas of our lives, the more information you get, and the more up-to-the-minute it is, the better we can do business and make astute decisions. It is interesting that investing is one area where the opposite is true.

We're not talking here about the second-by-second blips on a Bloomberg terminal that traders and computer algorithms use to make quick-twitch buys and sells. We're talking about the normal news reports, cable TV investment reports and investing articles that you're bombarded with on a daily basis. In general, the news and data supplied by consumer journalists is almost always harmful to your financial health.

How? Consider profiles of mutual funds and mutual fund managers. The quarterly profiles in Barron's and the articles in Money, Kiplinger's and the Wall Street Journal tend to focus a bright spotlight of attention on the hot funds—that is, funds that outperformed their peers (and the market) in the previous quarter. Three months worth of track record is statistical nonsense, but the hot fund manager is interviewed with breathless deference normally given to a certified genius. It is interesting that seldom if ever is the next quarter's genius the same as the last one. Anyone who invests with the fund of the hour is in grave danger of suffering a regression to the mean—which means losses when compared with the indices.

Even one-year and five-year rankings have no predictive value, particularly when the focus is on outliers who were well ahead of their peers. Meanwhile, when we aren't reading about hot managers, we're hearing about what the stock market did (or is doing) today. Today's price movements are, to a statistician, meaningless white noise, indicative of nothing remotely significant about the future. The markets go up today, down tomorrow, up for a week, down for a week, and during each of these time periods, analysts try to tell us the causes of these random bounces. They would be more productively employed trying to explain the "causes" behind each of the waves in the ocean, yet we can't help listening to their plausible explanations as to why this earnings report, that jobs report, or some other speculation on what the Federal Reserve Board will or will not do has affected our investment outlook.

And, of course, at market tops, when new money is chasing returns at the most dangerous possible time, the news reports are telling us how the markets have been going up, up, up. When markets are depressed, and it is the best possible time to put new money to work, the news reports are telling us all the bad news about months of market losses. Swimming against that tide is nearly impossible, even for professionals.

There may be meaningful information among this chatter, but it's unlikely that most of us will see it amid the noisy background. Back in the late 1990s, one analyst who couldn't believe how much people were paying for tech stocks finally broke through the background noise by pointing out that Amazon's share price 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. Of course, few listened, and the bursting tech bubble cost a lot of investors a fortune.

Today, we're being told that the current market rally is long in the tooth, that the Fed is going to raise rates soon, that market valuations are kind of high, and of course that certain fund managers did really well last quarter and yesterday's market was up or down. The problem is that we were hearing exactly the same things last year and the year before (remember?), and still the market churned ahead, cranking out new record highs.

Unlike just about any other activity you might pursue, the best, most astute way to invest is to turn off the noise and let the markets carry you where they must. The 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 millions of workers who go to work each day and build that value. Investor sentiment will swing around with the unhelpful prodding of journalists and pundits, but people who stay the course have always seen new market highs eventually, while people who react to every positive or negative report tend to fare much less well. When it comes to the markets, wisdom trumps up-to-the-minute knowledge every time.

Maybe somebody should tell that to the journalists.