## FOR SUCCESSFUL INVESTING, CONTROL YOUR INTAKE OF BUSINESS NEWS

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In many areas of life, we are given the advice to focus on what we can control. With respect to investments, the well informed will make sure, among other things, that they define a proper time frame, only take on appropriate risks, and manage their costs, especially taxes. But even people who do very well on these items often have poor results. Why?

Many studies show that people underperform the investments they select. It is not the behavior of the investments – it's the behavior of the investor. They try to make an inherently bumpy journey smooth by buying and selling in anticipation of the bumps. In our experience, one of the biggest factors determining if a person's investment portfolio succeeds is their relationship with news. Most successful investors have learned to control their intake of news but for others, the news controls them. To take control of the news, promise yourself you will remember these five points:

**The Most Consistent Track Record in All of Investing? You Won't Beat the Market**

The record is, frankly, spectacular. The most consistent track record in all of investing is probably the inferior track record of those who try to beat the market. This is a function of simple math and not any theory. Because those trying to beat the market incur costs that the market does not, the average dollar that tries to beat the market will earn less than the average dollar that does not make the attempt. This is true for all individual securities, all combinations of securities, all time frames, all geographic locations, and in all types of markets whether they are rising, falling, displaying high volatility or are in a relatively calm period. There are few certainties in financial markets but this is pure fact.

It is also a certainty that some people will beat the market over any given time frame. Unfortunately, they are hard to identify ahead of time. The skilled are indistinguishable from the lucky. According to a series of recent studies by Standard & Poors, you have a better chance of picking an above average fund by throwing a dart at a list of funds than by selecting a manager with an above average track record.

**News is Negative, So Don't Try to Adjust Your Portfolio Accordingly**

Bad news sells better than good news. By design, provocative headlines get more attention. Put these two thoughts together with the huge number of media outlets from print, TV, radio, and the proliferation of blogs and social media, and we are blasted with attention-grabbing gloom 24/7. We must recognize that most of what we see and hear is useless noise, not real news reported by good journalists.

It would seem that with all the attention paid to the economy and political events, changing a portfolio to take advantage of whatever scenario you believe will unfold would lead to a smoother ride. The evidence is clear, however, that seeking and acting on market “insights” is folly. One might profit on one prediction, but not necessarily on others.

If you fret over each new “crisis,” you will be fretting all the time. Yes, some of these worries will come to fruition, but just in the last few years we have seen the European debt issue, the debt ceiling debate, a nuclear disaster and tsunami, outlandish predictions of trouble with municipal bonds, the Arab Spring, and the downgrade of the U.S. credit rating. As soon as one issue died down another arose. Each event was presented as the “thing” that would cause the next drop in the markets. In all these cases, the economy continued to be weak, yet our stock markets have been productive.

Each economic or political “issue of the day” comes with dramatic predictions of a terrible outcome for the economy and therefore the markets. What do the U.S. GDP growth, the consensus estimate of future GDP growth, consensus estimate of corporate profits growth, the yield on the 10-year Treasury note, corporate profits as a percentage of GDP, the trailing one year return of the stock market, or the ratio of federal government debt to GDP (which we have heard much about lately) predict about future market returns? <u>Nothing.</u>

In fact, a recent Vanguard study of popular economic fundamentals from 1926 to the present showed that the amount of rainfall was more predictive of stock market returns than any of the items in the above list, even over ten year periods.

BUSINESS, POLITICAL, SPORTS TV - Is this news or noise?

**News Affects Your Mood**

To someone who is not a fan of college football, learning the score of the SEC championship game between Alabama and Georgia means little. But to fans of either team, seeing the score may produce an emotional reaction. But some fans in the stands may be left weeping after watching the action ebb and flow for four hours.

Being “informed” is a worthy goal, but you will have an easier time if you recognize that ingesting the noise, following each development, and taking in the blow-by-blow commentary in financial news can have a similar effect on your emotions as attending a live game of your favorite team.

Our moods are affected by what we give attention to. Investing isn’t a game and information about it shouldn’t be consumed like it is one. Are you happier after taking in political or business news? Most are not. A recent paper by Kansas State professors Dr. Sonya Britt and Dr. John Grable found that 67% of clients’ stress level increased after watching just four minutes of political or business news—even if that news was positive news.

**You Aren’t Missing Anything—So Unplug from the Noise!**

November’s CondeNast Travel magazine has some interesting information about how the digital age is affecting our brains. The anxiety many of us feel upon disconnecting from email while on vacation is quite normal, but as University of Texas neuroscientist Russell Poldrack tells us “...you can talk yourself out of it. It’s not like being on heroin.”

Real news will persist. The very presence of so much noise assures us that if anything truly newsworthy happens we will hear about it quickly.

The key to unplugging from the noise is to have a replacement for your brain's unceasing desire for new stimuli. If you cut down on news, you "…first experience tremendous anxiety. We're out of the loop. We feel like we've been left behind," says Stanford's Cliff Nass. "... you may even feel a bit hyper at first. That's just the brain shouting 'Stimuli! Stimuli!' - because that is what it is used to." It will be looking for stuff. 'There must be stuff, new stuff!' and there is. There is a whole other world out there."

**Opportunity Cost—A Waste of Your Time**

When you are consuming news and noise, you are missing the opportunity to do other things, hence the term "opportunity cost." You are not doing your job, spending time with someone you care about, exercising your mind by reading a good book, or even learning something new. Your brain is just sifting through the stimuli as fast as it can. Think of Lucille Ball in the classic scene at the candy factory with the relentless flow of the conveyor belt. It's funny on TV but in real life, raising stress levels, souring one's mood, and getting an inferior result is no laughing matter.

Our clients do not need to consume business news. We do that for them. We are not prone to hype or panic. We don't chase the hot hand or flee the next purported crisis. We believe resilience will trump nimbleness. It always has. You can control your intake of news or let the news control you. It is a choice you should make purposefully.