

# Why Investors Should Avoid the “Noise” of Everyday Media

*Behavioral finance studies the markets through the lens of human behavior. It posits that the main reason markets sometimes behave irrationally is that people sometimes behave irrationally. Virtually nothing subverts rational investment thinking and behavior more than being bombarded by media noise.*



## WHAT IS STOCK MARKET NOISE?

CNBC and other financial news media provide useful information, but since they are required to fill every hour (or every page) with something, much of what they deliver is unavoidably noise. How much has the Dow risen or dropped today? How did Amazon’s predictions compare to their first quarter earnings? What do unemployment claims look like this week? Daily short-term data — often labeled as “breaking news” — is not generally relevant to a long-term investment strategy. It’s more like static in the signal and is one kind of market noise. Financial media also presents a stream of expert opinions on what is going to happen next, based on their breaking news. These experts can offer good insights into historical market behavior if you listen with that goal in mind, but their predictions are irrelevant. Nobody knows the future.



## WHY SHOULD YOU AVOID THE MARKET NOISE?

Behaviorists have shown that humans consistently give more weight to bad news than to good news. That’s why the world is always going to rack and ruin, no matter the year or decade. We have a cognitive bias toward things that are going wrong. Evolutionally, this is an excellent idea. You do want to pay more attention to the approaching bear than to the delicious food smell that attracted him. However, in investing, this can skew your perceptions in a less productive way. Also realize that bad news may not be as grave as it sounds in the media, because the media have a financial interest in keeping your attention by making the most of bad news.

We are also pre-programmed to feel losses more strongly than gains — twice as strongly, in fact. In behavioral economics, our tendency to prefer avoiding losses to making gains is called loss aversion. Clearly, this can make us more risk-adverse, even when it isn’t in our best interests. Listening to market noise — or checking on your portfolio frequently — during downturns can cause you to make moves at the wrong times.



## HOW DO YOU DROWN OUT THE NOISE?

The secret to successful long-term investing is viewing the big picture objectively. You can't see the big picture when you are focused on short-term data. You aren't objective when your emotions are being dragged up and down (mostly down) by daily market fluctuations.

We have more information thrown at us every day from more sources than any other generation in history. How do we avoid letting it push us off course?

- ✓ **Set rational guidelines for managing your portfolio and STICK TO THEM.** Talk to your wealth advisor about your goals, timeline and risk tolerance level. Consult on a plan and stick to that plan, no matter what is happening to Microsoft or the S&P 500 on Tuesday morning. Keeping to the rules can stop you from fleeing wildly from temporary losses or chasing illusory gains. A disciplined approach is key to long-term success.
- ✓ **Diversify your portfolio.** Having a mix of different assets — stocks (foreign, domestic, small cap, large-cap, tech, transportation, etc.) bonds, alternatives, and cash equivalents — may help hedge against major fluctuations in any one class or sector.
- ✓ **Focus on quality.** High-quality businesses are defined as those that are competitively advantaged with protectable moats. These companies tend to have strong balance sheets with low levels of debt, low capital intensity, and positive cash flow. These types of companies typically prosper in good times but can also survive difficult ones. It is for these reasons that a quality focus serves as an important ballast for any investment portfolio.
- ✓ **Look ahead, not down.** Keep your eyes on your specific investing time horizon. Use that viewpoint to evaluate the noise you can't ignore. You'll be less likely to be overwhelmed.



## KNOW YOURSELF AND CHOOSE A TRUSTED ADVISOR

Every investor has personal pain points. It's important to know what is most likely to push you off course and have a strategy in place to avoid emotional derailment. A trusted wealth advisor can help.

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