# 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. In fact, the World Economic Forum, in its Global Risks Report 2024, identified misinformation and disinformation as the most severe short-term risks the world faces[1].

## 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 Company A's predictions compare to their first quarter earnings? What do unemployment claims look like this week?

Daily short-term data—often labeled "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.

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Social media, overrun with human- and bot-generated misinformation and deep-fakes, is the chief source of noise. A 2023 survey by the insurer Nationwide found that 34% of investors aged 18–54 acted upon financial information from social media that turned out to be factually incorrect or compromised in some way[2].

[1] *These are the 3 biggest emerging risks the world is facing. World Economic Forum, January 13, 2024.* *https://www.weforum.org/agenda/2024/01/ai-disinformation-global-risks/*
[2] *A Third or More Young Investors Acted on Misleading Online Financial Advice. Nationwide, December 4, 2023.* *https://news.nationwide.com/120423-third-or-more-young-investors-acted-on-misleading-online-financial-advice/*

## Why Should You Avoid the Market Noise?

Behaviorists have shown that humans consistently give more weight to bad news than to good news. We have a cognitive bias toward things that are going wrong. Evolutionally, this is an excellent idea. It makes sense to pay more attention to the approaching bear than to the delicious food smell that attracted him. However, in investing, this bias can skew your perceptions in a less productive way.

Underlying such hypervigilance is the human tendency to feel losses more strongly than gains—twice as strongly, in fact, according to Kahneman & Tversky[3]. In behavioral economics, our tendency to prefer avoiding losses to making gains is called “loss aversion.” This evolutionary tic 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 by daily market fluctuations. With smartphones as our constant companion, we have more information thrown at us every day 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 the markets 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.
- **Leave politics out of your investments.** The biggest hurdle has always been advising clients against letting their political sentiments shape their investment judgment. Rash decision-making and emotion-driven investing are a dangerous combination, and more likely than not investors run the risk of regretting an election-influenced allocation.

[3] *Loss Aversion. Behavioral Economics.* https://www.behavioraleconomics.com/resources/mini-encyclopedia-of-be/loss-aversion/

- **Go on a "media diet".** Only you can control the quality and quantity of media you consume. Avoid the temptation to doomscroll every scrap of news that claims to have a hard line on *where things are going*. As bad as you feel, here's a statistic to that we feel is important to bear in mind: Historically, the stock market has performed slightly better than average during election years. The S&P 500 generated a positive return in 20 out of the last 24 presidential election years[4], or 83% of the time.
- **Look ahead, not down.** Keep your eyes on your specific investing time horizon. Use that viewpoint to evaluate the noise you can't ignore. We believe you'll be less likely to be overwhelmed.
- **Know yourself and choose a trusted advisor.** Every investor has personal pain points. Between the sheer volume of market data and the tendency of social media to spread misinformation, it's important to have a strategy in place to avoid portfolio derailment. A trusted wealth advisor can help.
- **Focus on quality.** We define high-quality businesses as those companies that possess competitive advantages with protectable moats including strong balance sheets with low levels of debt, low capital intensity, and positive cash flow. From our perspective, high quality businesses are better positioned to prosper during good times and, more importantly, endure during difficult ones. It is for these reasons that we believe a quality focus serves as an important ballast for any investment portfolio.

Contact Kayne Anderson Rudnick today to speak with our team about your investment strategy.

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[4] *Investors' Election Year Worries Could Be Overblown, Experts Say. Investopedia, December 31, 2023.* *https://www.investopedia.com/investors-election-year-worries-could-e-overblown-experts-say-8410521*

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