

The Financial Media & You: A Toxic Mix

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THE
TAMPA  BAY
TRUST COMPANY

The Investor's Goal

► Make Money



The Financial Media's Goal

► Make Money



WALL STREET
JOURNAL



Forbes®



FINANCIAL
TIMES

The
Economist

THE
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Those Interests Are Aligned, Right?



▶ Uh, no

Making Money

- ▶ Investors: Own securities that appreciate, or which pay income.
- ▶ Financial Media: Charge subscription fees, and sell advertisements.

“Ah, there’s the rub.”

- ▶ Successful investors:
 - ▶ Often have unpopular or contrarian opinions
 - ▶ Are skilled at separating “signal” from “noise”
 - ▶ Are patient when their opinions diverge from the market

- ▶ Successful biz magazines and TV channels:
 - ▶ Follow the news -- popular topics attract more people
 - ▶ Thrive on “noise” – airtime and pages must be filled
 - ▶ Are impatient, reacting quickly to short-term events

The Business of Financial Media

- ▶ Tell people what they want to hear.
 - ▶ Reinforcing opinions is easier than changing them
- ▶ Lead with what's popular, not what's controversial
 - ▶ Bigger audiences mean more revenue
- ▶ Always have something to say about everything
 - ▶ Even when there's really nothing worth saying

Straight From the Horse's Mouth



“You make more money selling advice than following it. It’s one of the things we count on in the magazine business – along with the short memory of our readers.”

Excerpt from presentation at Anderson School, UCLA, April 15, 2003

It's 1999 -- Imagine This Headline

“Buy REITs Now!”

“These dull and offbeat securities are yielding 8%!
(Beats the %\$!! out of Cisco at 65 times earnings.)”

Instead You Got...

“Retire Rich”

“10 Stocks to Grow With: Companies with the size, stability, and earnings power to see you through the market’s ups and downs.”

(Fortune, August 16, 1999)

Sounds Great!

“To make our picks, we talked with top strategists as well as with prominent mutual fund managers and Wall Street analysts. But we didn't stop there. We pored over balance sheets and income statements, looking for a few key criteria.”

“First, we insisted on strong earnings growth that wasn't dependent on a single product or a risky strategy. Our picks also had to demonstrate growth in major product lines, a key ingredient if profits are going to rise steadily for years to come. Then we wanted to see strong management teams who know how to please Wall Street--but who never neglect the big picture.”

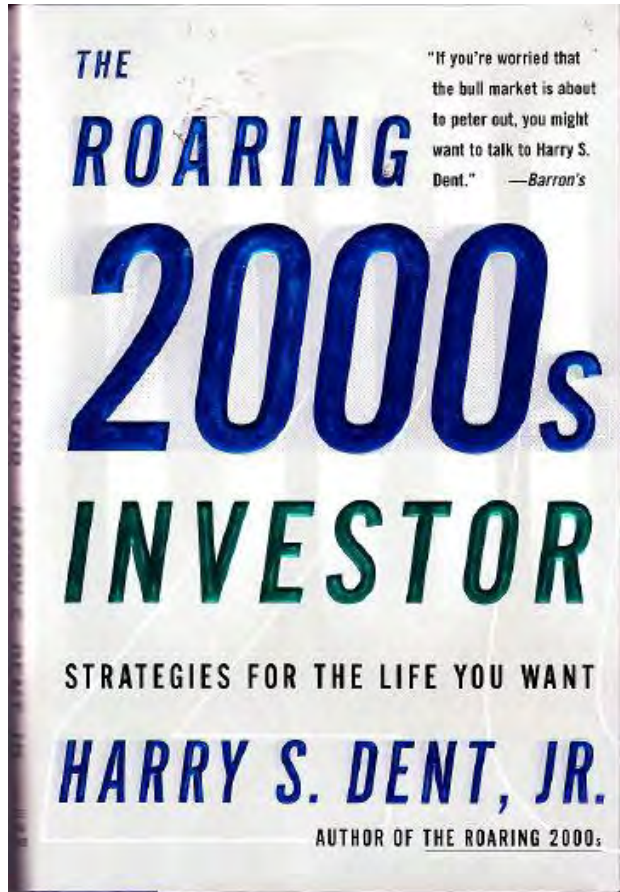
The “Retire Rich” Portfolio

▶ AIG	-98%	▶ IBM	+48%
▶ Bristol Myers	-49%	▶ J&J	+38%
▶ Cisco	-40%	▶ MCI WorldCom	-100%
▶ Ford	-56%	▶ Tyco	-50%
▶ Home Depot	-13%	▶ UAL	-100%

-42%

(In case you're curious, REITs returned **+250%**.)

What About a Real Expert?

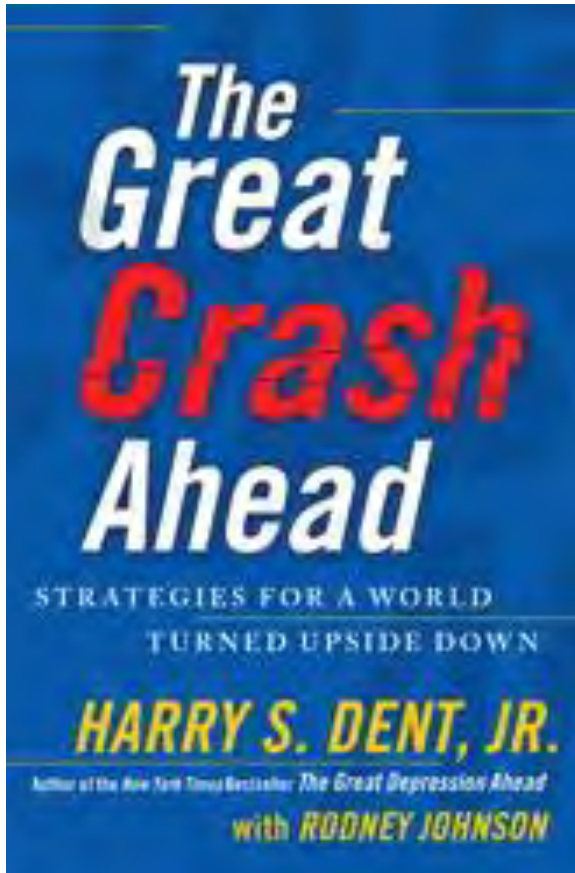


October, 2000:

“And where do I see the stock market headed? Likely to around 40,000 on the Dow by 2008.”

“That may sound outrageous, but it's not. That is simply the same 16% average annual rate of increase on the Dow and S&P 500 since this boom began in late 1982.”

OK, Maybe Dow 40k Was High...



September 2011:

“First, understand that **we do not agree with the old way of thinking, which is that equities always go up...**”

“After the next economic disruption, **we should see equities fall by at least 50% and possibly by as much as 75% to our best targets of 3,000 to 3,800 on the Dow.**”

But it's lower than my speaking fee!



Harry Dent

Thriving During Economic Recovery



Sign Up to see what your friends like.

Bio Bestselling Author and Renowned Economic Forecaster Harry S. Dent, Jr., has observed economic trends for decades. As he first demonstrated in his bestselling *The Great Boom Ahead*, he has developed analytical techniques that allow him to predict the impact they will have. His most recent book entitled *The Great Depression Ahead* explains "The Perfect Storm" as peak oil prices collide with peaking... MORE

Fees & Travel

Keynote	\$50,000
Half Day	\$70,000
International	\$70,000
Full Day	\$90,000

Harry Dent travels from Tampa, Florida and requires First class for 1

Yet...

- ▶ People still subscribe to Fortune, Forbes, and all the rest
- ▶ Harry Dent still sells tons of books
- ▶ Jim Cramer has more lives than my cat

- ▶ Why?

- ▶ *It's how our brains are wired – and the media knows this*

Confirmation Bias

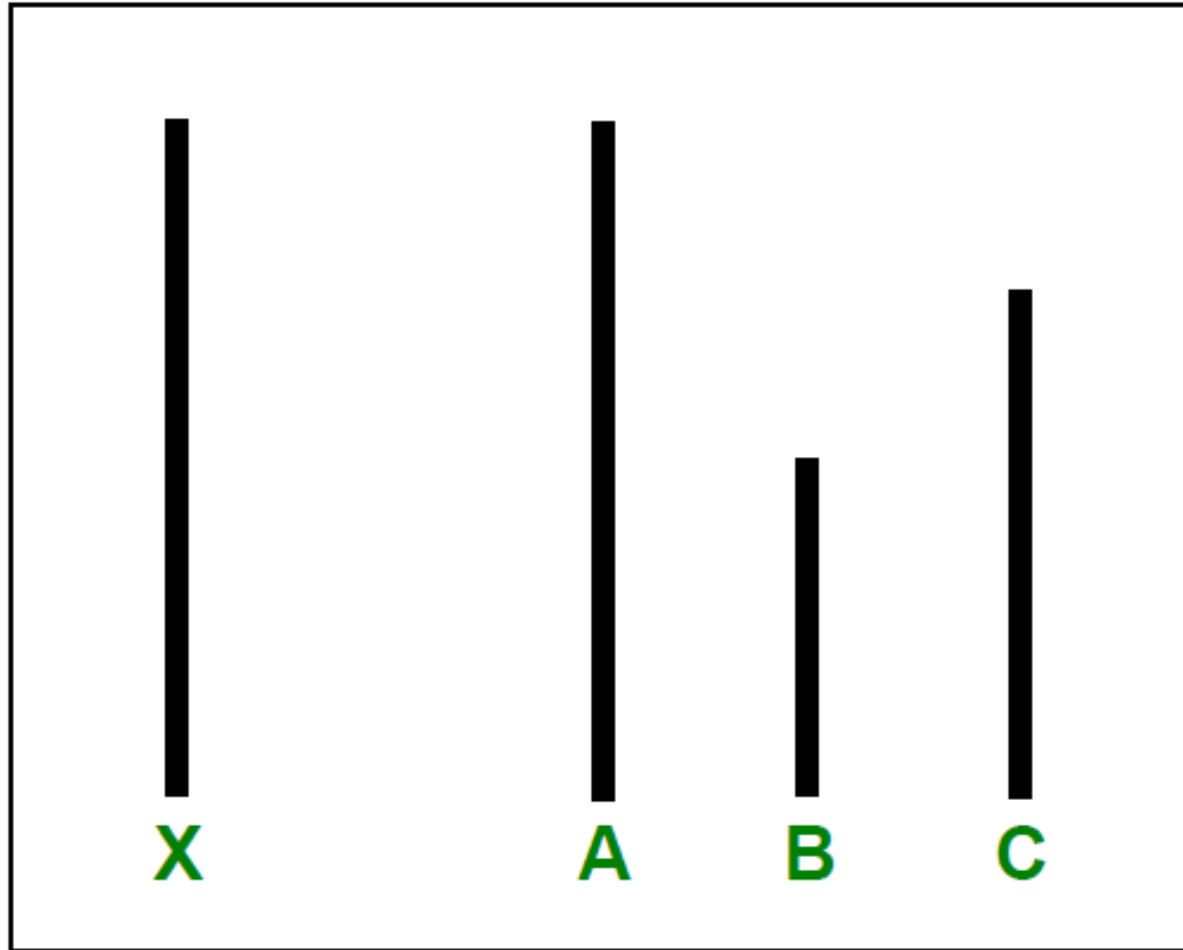
- ▶ Our brains readily accept data that agrees with preconceived biases, and reject data that does not support what we believe. Consistent info is processed more easily.
- ▶ **Result:** People don't naturally seek out contrary opinions. We are highly prone to groupthink and herding.
- ▶ “Man is incapable of understanding any argument that interferes with his revenue.” – Descartes
- ▶ The financial media gives us what we want – what we already think!

Social Proof

- ▶ People like to be liked. Humans are wired to be social, and so investors have a hard time buying “unpopular” stocks or asset classes.
 - ▶ Social exclusion = physical pain
 - ▶ “Being a contrarian is like having your arm broken on a regular basis.” – James Montier
- ▶ The financial media covers what’s popular, because that attracts a larger audience – which is what pays the bills.

Social Proof

- ▶ The Solomon Asch Experiment



Filling Space

- ▶ The Wall Street Journal has to publish every day
- ▶ The Economist has to publish every week
- ▶ And CNBC has to fill 17 hours of air time every day

- ▶even if nothing is really going on

- ▶ *“The Dow is down for the sixth day in nine.”*
- ▶ *“Treasury yields rose the most in three months.”*
- ▶ *“Dow flirts with 12,000.”*

War Stories

- ▶ “But we talked about that stock three weeks ago”
- ▶ “We already have a story on health care stocks”
- ▶ “Yum Brands just reported – what do you think?”
- ▶ “Can you explain return on equity to me?”
- ▶ “But XYZ is down 5% so far this month”
- ▶ “C’mon, Pat – just play ball”

So What Do You Do?

- ▶ Beware of journalists picking stocks
 - ▶ You're better off with Greeks bearing gifts
- ▶ Seek out longer interviews with credible investors. (Not strategists.)
 - ▶ When fund managers, etc are interviewed, they may get dumb questions (or give dumb answers), but they are generally not edited or filtered.
 - ▶ Longer is better – you get real insight, rather than sound bites. (Charlie Rose or Bloomberg, for example)



So What Do You Do?

- ▶ Focus on facts, not opinions – use the financial media as a transmission mechanism rather than as a source of insight
 - ▶ Reporters can talk to more people and read more stuff than you can
 - ▶ The data reported by the financial media can be valuable
- ▶ Try to separate signal from noise
 - ▶ Daily/Weekly/Monthly market movements = noise
 - ▶ Corporate earnings reports = some of both
 - ▶ Information contrary to prevailing opinion = signal (sometimes)

So What Do You Do?

- ▶ Know your source and keep the salt shaker handy
 - ▶ Bill Gross is not going to tell you that bonds stink relative to stocks
 - ▶ A bank analyst is not going to tell you to sell your bank stocks
 - ▶ A small cap manager is not going to tell you to buy large caps
 - ▶ Joe Kernan is not going to tell you that the market is quiet today, so you should turn off the TV and go play golf.

Bottom Line

- ▶ The job of the financial media is to attract viewers and readers – not to provide quality financial advice.

Thank You

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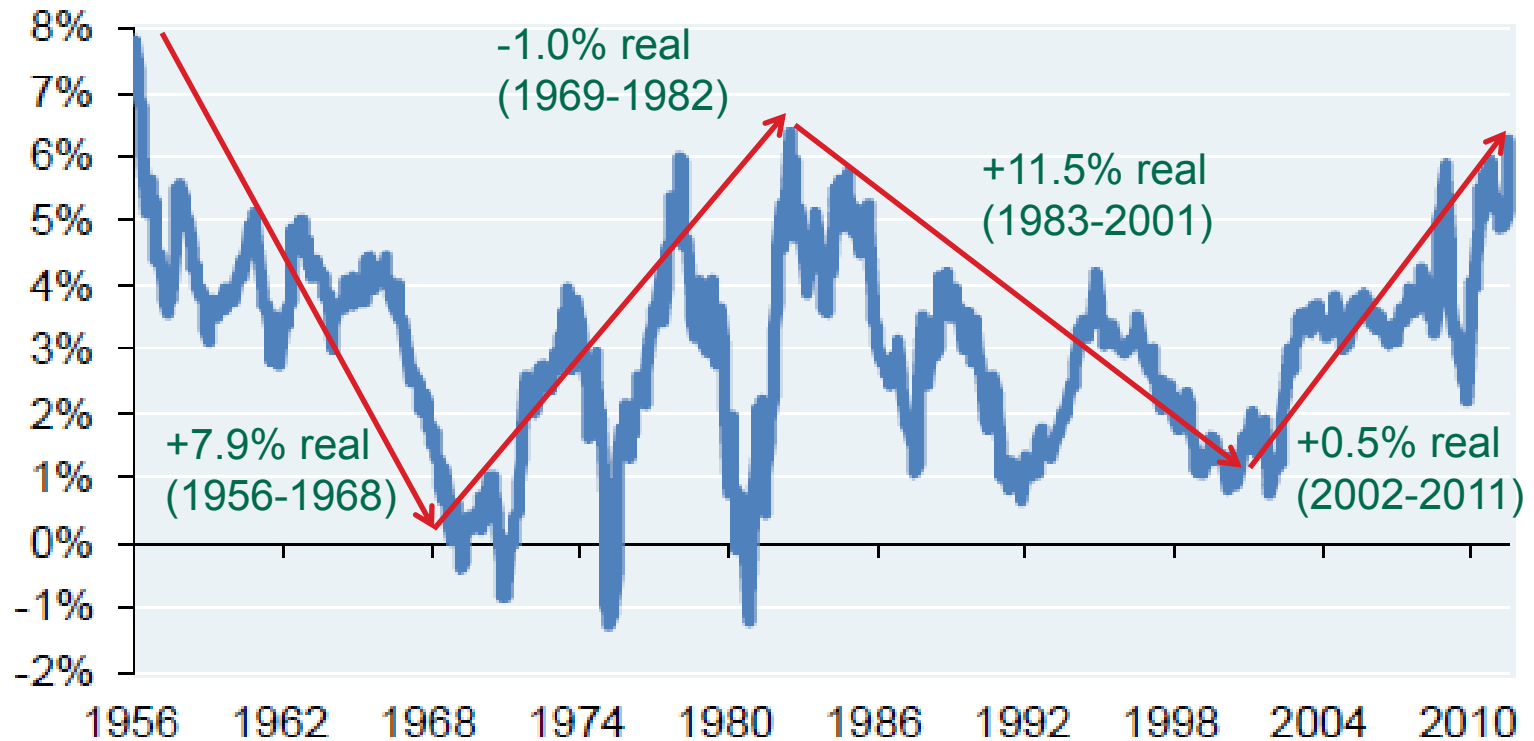
You Asked...

- ▶ U.S. stocks are very cheap relative to bonds, and pretty cheap on an absolute basis.
- ▶ Europe is a mess, but not Lehman redux.
- ▶ “Safety” is very expensive. (Tsy, AA corps.)
- ▶ Non-U.S equities are quite attractive.

Cheap Stocks

Real S&P 500 trailing earnings yield

Trailing earnings yield of the cap-weighted S&P 500 less core CPI



Source: Robert Shiller, S&P, corporate reports, Empirical Research Partners.

Looking Further Afield

- ▶ Outside the U.S., equities are even cheaper.

<u>Index</u>	<u>TTM P/E</u>	<u>Fwd P/E</u>	<u>Yield</u>
MSCI Emerging Mkts	10.5	9.2	2.9%
MSCI World (ACWI)	12.2	10.5	2.9%
MSCI EAFE	12.1	10.8	3.9%
MSCI Europe	10.5	9.6	4.2%
MSCI Switzerland	12.5	11.2	3.7%
MSCI Germany	10.5	9.6	3.6%
S&P 500	15.0	12.3	2.1%