

Carmel Valley News / Del Mar Village Voice

June 2005

Tune Out The Noise; The Results Will Follow

By Terry Green, CFP[®], AIF[®]

Everyday we are bombarded with a plethora of investment advice. We see it in magazines and newspapers and we hear it on the radio and TV. But is any of this advice sound; or is it just noise?

The first thing to do is to look at the source. Much of the media operates with an incentive to fatten their own pocketbooks. Their goal is to grow their audience and their advertising revenue. Publications like *Money*, *SmartMoney*, and others, try to accomplish this by running stories with catchy headlines such as: “The Next Qualcomm” or “Top Stocks to Buy Now!”. Readers are motivated to purchase the publication to learn how they can get rich quick. If only it were that easy.

Television and radio financial shows are no different. How often do you hear the host describe the latest day’s move in the market by mentioning a particular factor? Have you ever heard “Stocks moved lower due to economic concerns” or “Stocks moved higher as investors shrugged off economic concerns”? These shows also seem to imply that you should have known this ahead of time and reacted accordingly. They create a sense of urgency and anxiety that motivates you to watch or listen more.

The media understands how emotional people can be – especially with their money. They try to instill the belief that you need to know the future to be a successful investor. With that in mind, they churn out forecast after forecast, often relying on the opinions and hunches of their sources on Wall Street. Often these sources are analysts and brokers who are plagued by their own conflicts of interest. In the end, the media gets their “sizzle”; the source gets their promotion; and the confused investor is left to sift through all of the questionable advice.

One crystal ball prediction that usually holds true is that the more you trade, the more you lose. Transaction costs, commissions, and bad timing all erode the value of your portfolio. Of course you will never hear that message from Wall Street. They make too much money on your transactions. Most of the media will forget to tell you that too. They are too busy hyping the ridiculous headlines that sell magazines and keep advertisers happy.

It is unfortunate that the successful investment strategies that incorporate diversification, index funds, and “buy and hold” rarely make headlines. Can you blame the media though? They need to answer to advertisers and they know they can’t hold an audience with such a boring message. Therein lies the conflict. Successful investing is not supposed to be exciting. If your adrenaline levels swell, the focus is probably on short-term speculation rather than long-term gains.

Trying to tune out the financial noise is difficult though. Human nature, being what it is, will always pay attention to big outrageous headlines and sexy predictions. Just like with other cosmic commercials that try to predict the future, these messages should come with the disclaimer “for entertainment purposes only”. Once you recognize them for what they are – entertainment value, and not a source of advice to act on – you’ll be much more successful at investing.

Terry Green, CFP[®], AIF[®] is an independent, fee-only financial planner with Blue Water Capital Management. He can be contacted at (858) 552-1488 or terry@sandiegofeeonly.com.