Can News Be Neutral?

As my friends know, I'm an avid baseball fan, and I fancy myself a student of the game. One thing I love is the endless statistical data the game generates. In talking baseball, you'll sometimes learn more about people's biases from the data they use than from the points they make. Here's an example you might see during a San Francisco Giants game. As Barry Bonds comes to bat, the stadium message board might flash a statistic like, "Barry Bonds is 10 for his last 23" — he has 10 hits in his last 23 turns at bat. That would be a .435 batting average, a real hot streak. The last Major Leaguer to sustain such a pace over an entire season was Hugh Duffy, who hit .438 for St. Louis in the National League in 1894. But why pick his last 23 at-bats? Because Barry is also 9-for-22 (.409), 10-for-24 (.417), 10-for-25 (.400), and possibly 10-for-26 (.385). The Giants want to emphasize his success, so they post the best numbers they can find. No one expects the home team to be neutral, so in this case the bias is harmless.

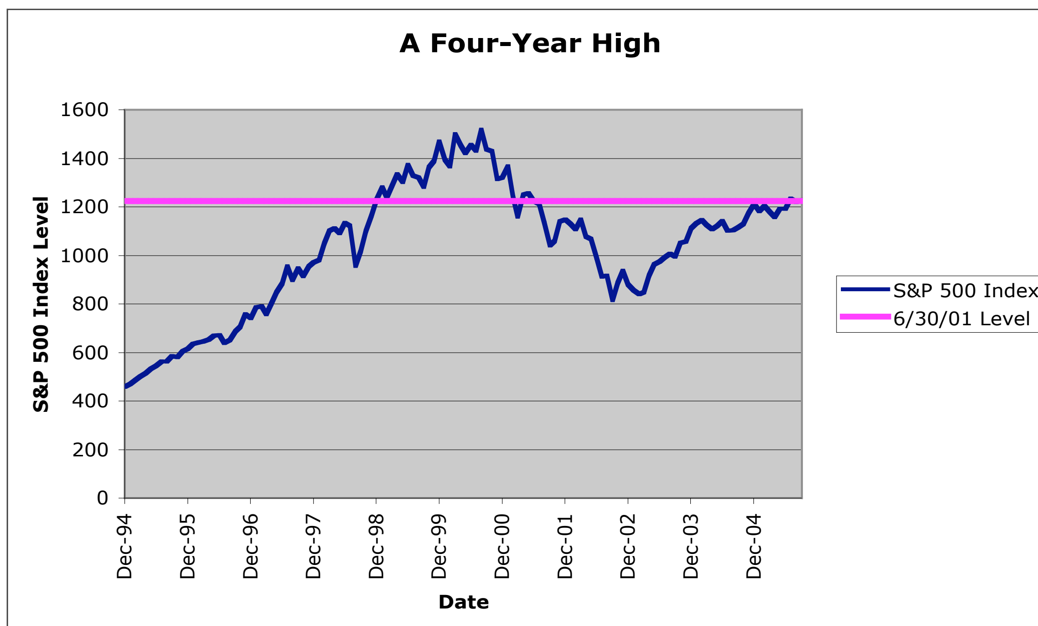
The markets generate even more statistics than baseball. Many require specialized knowledge, and some seem impossible to replicate or verify. When statistics are hard to understand, bias in their use is treacherous. Examples abound, but here is a common one. At several points this past summer, you could have turned on the financial news and heard a statement like: "The Dow Jones Industrial Average reached a four-year high today…" That's a factual statement, with a nice, bullish sound to it. Harmless enough. But is it?

Picture what a chart of a four-year market high looks like. You might imagine a four-year timeline with a long, upward-sloping graph on it, ending today at the highest point. That is what the statement seems to suggest. What might you do based on this information? Should you take profits, selling shares you purchased a while ago, at lower prices? After all, four years is a long time. Or should you bet that the market would continue this trend? You could argue it either way. But wait a minute. The first thing you should ask is, "Why pick four years, ending with a high?" Let's look at the bias underlying the statement.

To see the broader picture, we'll look not at a four-year graph but rather at the ten-year graph below. The figure shows the monthly close of the S&P 500 Index, from December 1994 to September 2005. Is this what you were expecting? Yes, the market hit a four-year high. But it's no higher than it was early in 1999 (nearly *six* years ago), and it has barely regained half of the ground it lost from the peak in 2000 to the trough in 2002. Emphasizing the four-year high

suggests a new peak, but the broader look shows something different. The term "four-year high" actually says the market has merely made a *round trip* over this four-year period. Did this information leap out at you, when you read the initial statement?

Let's look at the actual performance the graph shows. The S&P 500 index's highest close so far this year was at 1245.04, on August 3. The last time the S&P 500 closed higher was June 12, 2001, when it reached 1255.85. The last time the index ended a month at a higher level was May 31, 2001, when it closed at 1255.82. So the S&P 500 index was indeed at a four-year high in August. But that only means the market has recovered a substantial portion of its losses from the beginning of the decade. It has a long way to go to regain the March 2000 peak.



Source: TIA calculations. Data from Yahoo! Finance and Standard & Poors

In the past four years, the S&P 500 has had a total return, including dividends, of +26.44%, or +6.04% annualized (9/30/01 to 9/30/05). That's enough to make it worth having been in the market, but it isn't the call to action you might expect from a phrase like "four-year high."

So why would a reliable financial news source make such a statement? For starters, legions of financial journalists spend each day culling "news" from the movements of the market. A statement like "four year high" will get more attention and eye-pops than one that says "market flat over a four-year period." It might convince more people to purchase a paper or keep watching that channel.

Journalists and editors like dynamic stories. So do advertisers. What if, instead of citing the "four-year high," the report said, "The market is halfway back to its peak of early 2000?" Would you sell on that news? Buy? Would it make you consider the market strong? Overextended? Probably not. On the other hand, the original statement sounds like a call to action to investors. But why would a news organization care if you trade based on what they report? Consider who the big advertisers on business news channels are. If they're financial services firms, they may not care whether you buy or sell, but they hope you'll do something.

Every news source has a bias of one kind or another. CNBC, which we like, is usually bullish on the market news. That's where you might have heard the "four-year high" report. *Barron's*, a weekly Dow Jones publication that we also like, tends to take a bearish — downright saturnine — slant. It might gleefully point out to its readers that the "four-year high" really means that the market was falling four years ago, and has finally managed to claw its way back to where it was back then. It might go on to suggest that investors are lucky we've regained this much ground.

It's like the bias in conventional news organizations. The *New York Times* is reliably liberal, the *Wall Street Journal* reliably conservative. What about Fox News? Liberal outlets tend to criticize Fox as an apologist for the Administration. But while publications of one political stripe tend to complain about the biases of those on the other side of the debate, the slant isn't the problem. It is just part of the landscape. The problem arises if you rely on a single source for your news. We report; you decide. But don't decide until you hear what the other side has to say.

Reading the Financial Press

The "Four-Year High" exercise illustrates the perils of lurching too quickly based on what you read in the financial press. Should you even read the financial press? Of course, but recognize that "news" has bias. Reporters craft stories from data to excite the interest of the audience for their newspaper or TV channel. Watch for those biases. They could come from the perspectives of the reporters, the goal of generating business for sponsors, a political agenda or many other places. They may come from a strategy of cultivating a specific target audience. We may not know exactly what those influences are. We only know that they exist. The best way to neutralize them is to gather additional data by reading or watching a variety of sources. Don't stick to just one channel that suits your own perspective. Diversify your news sources.

Finally, and perhaps most obvious but most worthwhile to repeat, don't trade on "news" from a fax alert, mailer, or television program. To benefit most from your investment choices and strategy, you need the discipline to stay with your established investment plan. Resist the impulse to react to limited data meant to excite interest. If you expose yourself to a diversity of

data sources and see a broader picture, you will almost always make better choices. A balanced diet of information, gathered over time, can improve your investing. Reacting to junk news may not be so good for your portfolio's health. If you find maintaining discipline difficult in the face of rapid-fire financial news, then you might be better off working with a professional, who can help you with a more structured approach to your investments. The result could be less stress, and better portfolio choices.

Disciplined Investing: Think about What you Read

Investors never need worry about a lack of reading material. But too much of what passes for investment insight is just poor reporting, ill-disguised sales material, or worse. So read widely, and evaluate what you read. Don't worry if much of what you read or hear is contradictory. The market is ultimately dialectical, an economic forum that resolves differences of opinion into valuations. If anything, the time to worry is when everyone seems to agree. That's when the imbalances creep into the market.

While you read, think. Think about the writer's sources and point of view. You can learn a great deal by reading intelligent investment commentary. One thing you learn about is the difficulty of investment forecasting. The most intelligent and honest commentators highlight facts that they believe help them understand the markets, but they temper their predictions. Instead, they offer opinions on how to position portfolios given the current state of risk and opportunity in the market. And if you watch closely, you'll see that they change these recommendations in a measured fashion.

By all means, read the financial press. The more you know, the more intelligently you can invest. But take care to avoid over-reacting. The paper you read tomorrow may directly contradict the one you read today. It's too easy to read a plausible article or report and make an unnecessary change in your portfolio. I frequently talk about long-term results. Those results come from taking the long view. And the long view requires discipline.

- Jonathan Tiemann
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Tiemann Investment Advisors, LLC is an SEC-registered investment advisor based in Menlo Park, California. For more information, please send your request to information@tiemann.net or visit www.tiemann.net.

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