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The Press is Not Your Friend

Eric McLuhan wrote an excellent essay in the December issue of TVO Magazine titled 'The changing face of literacy'. It has important implications for investors.

McLuhan observes that historically our communications favored words and language over the oral traditions of ancient society as the building blocks of knowledge and thinking. 'Written words, language, numbers, speech, logic, abstract thought, long chains of connected reasoning, and so on' tend to detach the reader from the subject, and allow the reader to rationally assess the subject. This detached reasoning emphasizes the objective, logical, left side of the brain, and this left-brain bias, according to McLuhan, is the underpinning of Western culture. And also, I submit, of successful investing.

The logical left side of the brain contrasts to the right side of the brain, which favors images, impressions, and emotions as the primary way of thinking. The electronic and other mass media prevalent in today's society strongly favors the non-linear right side of the brain.

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Robert Schiller, in his book 'Irrational Exuberance', points out that the news media is a powerful force in shaping our perceptions. Yet the primary motive of the media is unfortunately *not* to convey important information. It is to compete for the ever-shortening attention span of their channel-surfing and page-flipping audience.

An ever-quickening pace of visual images or 'shots' bombards us. Many TV shots are less than a second in duration. Sound bites on the evening news try to wrap up the Mid-East conflicts in a fraction of a sentence. Writing styles now cater to attenuated attention spans with the single-sentence paragraph: opening sentence, argument, and conclusion all in one sentence. Sentences too, are significantly shorter than in the 1950s, according to McLuhan. E-mails and Internet text messaging tries to communicate in only a few words at a time, not to mention the ultimate travesty, the bullet-point presentation.

These staccato bursts of images appeal to the right side of the brain. They encourage emotional participation by the audience, and they discourage detached, rational thought, McLuhan writes. As a result, we risk losing our capacity for the intelligent discourse and dialogue that is so necessary for sound judgement. We're losing sight of the fact that complex ideas require more than a sound bite.

Unfortunately, almost everything in the daily media huffs and puffs with a contrived urgency that is utterly useless if not actually damaging to real investors. Intelligent investing, on the other hand, almost by definition is a left-brain activity.

There is, in addition, a more ominous element at work here. We all know, at some level of perception, that much of what we read in the newspaper is slanted, stretched, or just plain nonsense.

'They're just trying to sell papers' is the cliché. But the so-called reality shows now fill 13% of prime time TV programming, up from 5% a year ago, according to The Wall Street Journal. We know it's garbage, yet it's hugely compelling (to some people, at least).

This compelling nature of the media is illustrated by a story my father tells of a conversation he had with a patient about Alan Fotheringham, a sharp-witted Wet Coast journalist. The person had to get home to read Foth's latest column. 'Oh, do you like him?', asked my Dad, who knew something of The Foth himself. 'I absolutely *hate* him' said the patient, 'But I just *have* to read him!'

So please remember, the media is nothing more than mindless entertainment. It isn't wisdom. In fact, I agree with Nick Murray, a 30-year investment veteran, who suggests that information media be required to carry a warning like a cigarette pack: 'Warning: Wisdom Sold Separately'.

The primary objective of the press is to stimulate emotional response. Anxiety is one of their favorites: hence the headline spanning two full pages in the Globe September 15, 2002 'Have a scary Christmas' about the risk of terrorism in Canada. Or February 5, 2003: 'Investors flee mutual funds', where investors actually redeemed only *two tenths of one percent* (0.2%) of fund assets in Canada.

Not only was the latter article a stretch, but it missed the real nugget of wisdom, which is that investors do tend to redeem equity funds in the months that equity markets decline the most, and tend to put money into equity funds in the months that they rise the most. More on destructive behavior shortly.

Consider the crescendo that accompanied the tech stock mania of 1999 and 2000. Behind it all was the news media, screaming about how it was different this time. Teenage Internet millionaires and day traders were the darlings of the day. Getting rich seemed so easy. Those who 'didn't get' the Internet were widely perceived as out of touch (or just plain wrong). The media even dismissed Warren Buffet, one of the wisest and most successful investors of all time, as "Yesterday's Man".

Unfortunately sometimes the media contains what could be very bad advice. One well-known journalist, who seems to fancy himself a savvy investor, gave his top 10 ideas for RSP investing in the February 15 Financial Post. The first seven suggestions were for some sort of bond, GIC, or income trust. The same day the Globe profiled an investor whose portfolio was entirely bonds, closing with a summary titled '*Advice': '…buy long bonds and hold to maturity…you can't lose'.*

Recommending that investors load up on long bonds now is, at best, what we call 'driving by the rearview mirror'. It is just as disastrous in investing as it is in driving a car. Here's why:

Bonds may look good in the rearview mirror now, because they've been performing well. But these childish recommendations neglect the fact that the economic factors behind the good bond returns of the past 2 decades, and even the last three years, have almost no chance of continuing. Why? Because bonds go up in value as interest rates fall, and conversely they go down as interest rates rise. The great returns from bonds have occurred as interest rates fell from 22% in 1982 to 14% in 1990 to 5% today. Interest rates simply cannot fall that far from here.

Bonds may well still have a place in a portfolio; but to say '…you can't lose', with both inflation and interest rates at generational lows, is just plain foolish. Ask anyone who loaded up on long bonds in the '70s when their value was cut *in half* by rising interest rates and inflation.

The examples are endless. January 25, 2003 there was a Post article suggesting that if you were tired of stock market declines and wanted to invest in real estate, you could put a private mortgage into your RSP portfolio (and we assume buy the real estate outside the RSP).

True enough. But don't expect the newspaper to provide any judgment about the potential folly of taking money out of the equity markets now, after the worst decline in 70 years, in order to invest in a red-hot real estate market. More driving by the rearview mirror.

Not only that, but we've even driven the road before: late '80s to be exact.

Journalists have spilled a lot of ink touting index funds as the low cost route to do-it-yourself investment Nirvana. Journalists love low fee investments. All you need is low fees and you're set, they say.

The point that the pseudo expert journalists neglect to mention is that, as the crash of the tech and growth stocks clearly demonstrates, investment success has nothing to do with the hot idea or low fees. Investment success is mostly about investor behavior: the wisdom, or folly, with which your portfolio is steered through the great currents that confront us.

I'm not just dreaming this up. Many authoritative studies have found that investor behavior is the primary determinant of success. Most recently a study by Financial Research Corp. in Boston was described in the November 2002 CA Magazine. The study found that investors who did not use a Financial Advisor tended to hold their mutual funds for shorter periods than investors who did use an Advisor.

What's worse, the study confirmed that investors tended to have lower investment performance than the funds they were investing in. Why? (I love this one) Because they switch around their holdings too much: even great investment managers have periods where some other manager seems to be shooting the lights out by comparison. Ill-advised investors, egged on by a short-term perspective, tend to rush their money over to the hot manager. Usually just in time for the hot manager to cool and the excellent manager to do well again (Trimark a few years ago comes to mind). The result is sell low, buy high.

The point that the media dares not mention is that they are responsible for encouraging this destructive investor behavior. *Caveat reader*, you might say.

Here's my advice. If you are concerned about the problems of the world, pick up the phone and call me. I will be happy to talk things over. Forget the newspaper. It is irrelevant noise. Any financial wisdom in the press is only an accidental by-product of their primary mission. If you would like something intelligent to read, please call or e-mail me and I would be happy to send you my reading list. I have great books and articles on everything from investments to the Middle East to global warming.

The proof, as they say, is in the pudding. This newsletter, in 1999 and 2000, before the bubble burst, advised in the strongest terms possible that investors avoid or minimize exposure to tech stocks. It was a difficult opinion to hold at the time, because tech stocks were going up. The point is that there was no particular piece of news, no up-to-the-minute trading, no critical headline, which gave me the insight. My judgment was formed from publicly available information, studied in the context of 20 years of experience, and hundreds of years of history.

One last joke. Two people were in a balloon, floating over the countryside, when they became lost. Spotting a person in a field, they drifted lower, and called out, 'Hello there! Can you tell us where we are?'. As they drifted past, the person in the field called back, 'Yes! You're in a balloon!' And as the balloonists floated away, one turned to the other and said, 'That twit must have been a journalist'. 'How do you know?' asked the other. 'His facts were correct, but totally useless'.