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Cadence clips

FOCUSED ON WHAT MATTERS MOST.

Financial News Media Is Not Your Friend

"If I had only followed CNBC's advice, I'd have a million dollars today — provided I started out with $100 million dollars."

– Daily Show Host, Jon Stewart

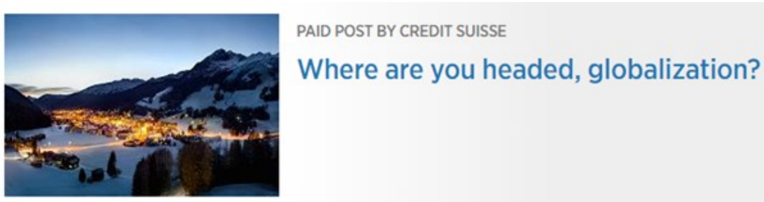
It's a dog eat dog world for news organizations. A few decades ago there were no Internet pages to maintain. National television news stations had roughly 22 minutes per night to fill and could stick to mostly the big stories of the day with a sprinkling of special interest pieces here and there. Weekly hour-long and half hour-long shows were popular as well, and benefitted from having an entire week to work on their content. Today the competition for your eyes and ears both on television and on the Internet is fierce. Cable news stations have hours and hours to fill each day, and their websites need to guarantee you fresh content relatively frequently, all with the goal of keeping you coming back again and again as often as possible.

The financial news media faces the same issues of eyeballs and website visits as broader news organizations. In the interest of focusing a lengthy piece, we are going to comment mostly on CNBC and CNBC.com, but all financial news media companies engage to varying degrees in the practices this article highlights. It is our belief that you as an investor would be better off ignoring CNBC completely than paying close attention to it. That's not to say that it cannot be useful, just that CNBC does not make it easy to find its utility. To explain this fully, we give you our:

Top 10 Ways CNBC Hurts Investors According to Cadence Wealth Management

10 *Their priority is making money first, informing you second.*

At the end of the day they're trying to make money almost any way they can. If they can keep more people watching by having over-sized personalities bickering about the direction of the markets every hour of the day, they will do that, even though very few investors benefit from that content. If they need to write more and more alarming or sensationalized stories to get you coming back to the website, they will do that. The longer you watch the channel and the more you visit their website, the more they can charge for ads. In addition, they sprinkle in stories written by their advertisers that fit seamlessly among the other headlines, as evidenced by this Credit Suisse "story":



And they will do what they can to entice you to move from being purely an advertising consumer into a direct buyer of their more premium content, like these stories available only to their paying customers demonstrate:

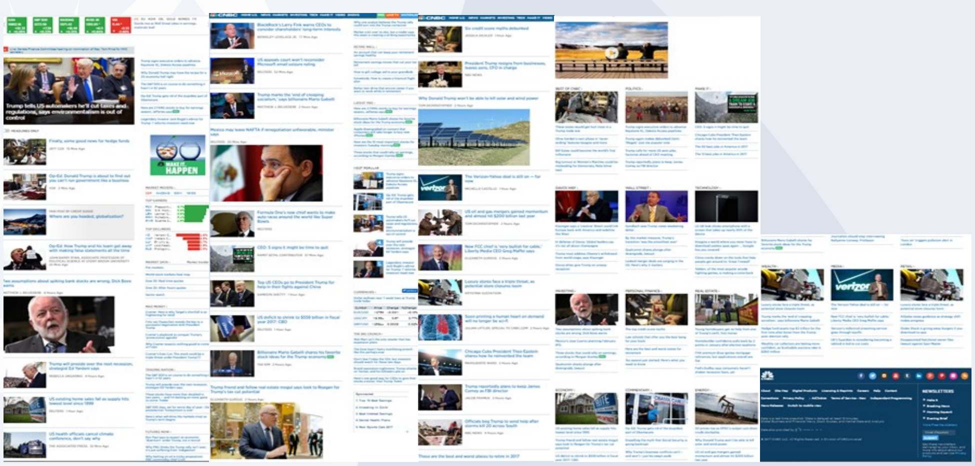
Traders betting these 5 stocks will beat Wall Street's earnings expectations this week PRO

To their credit, they do still provide some useful news and information, but much of their content is geared toward knee-jerk opinions as opposed to well-researched and careful analysis, and besides, it can be very difficult to find that good information because. . .

9

They provide so much information that it is difficult to know what is useful and what is not.

As I type this, CNBC is showing a Senate confirmation hearing on the left side, some talking heads on the right side sharing their wisdom of what's happening on the left side, a Breaking News ticker underneath that, but next to that on the right are the values and moves of a few stock market indexes and precious metal prices which are constantly changing, and then underneath ALL OF THAT is a continuously scrolling ticker of stock and other security prices. Where do you look? Can someone please lend me three more eyes? Some of the information actually is useful, but it's very difficult to find sometimes, or to know which of the five things on the screen are actually meaningful. Speaking of information overload:



That is just the top page of the CNBC website. There are 162 different pieces of information on just that page alone. When you click back in an hour, some of them will have moved around, and some of them will have disappeared to be replaced by others. Do you believe among these 162 different pieces of information there is even one that will provide you information that will make it more likely you will achieve your retirement goal? If there isn't, then how well is CNBC succeeding in delivering on its promise to help you "Get Yours"? But it's not just the sheer volume of information on their website and television channel that is a problem, the usefulness of a lot of that information is low because. . .

8

They provide some information that is guesswork masquerading as advice.

This is an actual CNBC.com headline, and you can usually find at least one like this each day:

A huge new rally could be in store for Apple

Is a huge new rally in store for Apple? I don't know; maybe. Is "could be in store" actionable information? It might look like it is, but in the end you still have to use your own judgement about the content of the article and act or not act accordingly. However, if Apple doesn't go on a huge new rally, it's not like CNBC guaranteed they would, but if they do, well, didn't CNBC tell you that was possible? It makes you feel in retrospect that they provided you a clearer direction than they did at the time. "I missed the Apple rally! I can't believe it. CNBC TOLD me that it was possible; I should have acted." On the other hand if this huge new rally never happens you'd be saying "I shouldn't have bought Apple! It's not like CNBC said it was definitely going to happen." In this case, YOU can be wrong, but they can't. It's not like CNBC shouldn't write this story, but as an investor you have to realize that this story should not be what motivates you to buy Apple, or gold, or anything. A wishy washy story is useless enough, but it gets worst because. . .

7

They frequently provide information that directly contradicts other information they also provide.

Look at these next two stories as they appeared on CNBC.com side-by-side and consider them from the point of view of a nervous stock market investor:

JPM's Dimon: Sell-off could just be an adjustment

Why the market's drop may just be getting started

If this market sell-off is just an adjustment, I should buy more when it's low, right? But wait, if the drop is just getting started, that means I should sell instead, doesn't it?

It is common to see contradictory points of view, even right next to each other. We have found that they are more likely to do this with big predictions as opposed to small ones, and that makes sense because the bigger the concept, the more people out there who will have an opinion. Like the point made in #8, we are not saying CNBC shouldn't provide this information, just recognize it for what it is: opinions upon which no clear investment direction can be taken. Read it, process it, and use it in conjunction with other information, but on their own these stories are not enough on which to take action. This is true not only because the stories give no clear picture of what you should do, but also because. . .

6 *They focus on impractically short time periods.*

A central pillar of financial planning is that people should invest with their goals, timeframes, and tolerances for risk in mind. For most investors this means choosing a mix of quality investments that is properly diversified between safer and riskier assets, rebalancing regularly, and making changes over time as their goals and tolerances for risk change. This process is not a day to day process, nor is it exactly a "set it and forget it" strategy either, but one that evolves slowly over time, and though monitored frequently, changed only when appropriate.

But where would the 24/7 financial news media be if all they told people hour after hour, day after day was: "Stay the course. Stay the course. Rebalance. Stay the course. Check your tolerance for risk. Stay the course. Has the timing of your financial needs changed? No? Well then, stay the course. . ."

24/7 financial news, whether it be on television, on the radio, or on the Internet cannot survive without some compelling reason for you to come back again and again. This forces them to report on new news items with incredibly short lifespans, basically the opposite idea to finding the right asset mix and rarely making changes. This means showing changes to various indexes and stock prices in real-time, commenting on those changes constantly, and speculating what might happen next. If the NASDAQ is down -1.25% by 11:26 AM, should you sell your technology stocks? The day to day moves of financial markets are not what should be causing you to change your investment strategy.

This website headline is apparently implying that you should be trading every day, and not only that, but there are some trades that are so important, you have to do them before all others. This is an example of not only treating investing like it is something that should be done daily, but also some investment decisions are so important they have to be done FIRST THING, by George. What are you doing? There's no time for a cup of coffee NOW! Get your first trades in! The problem, though, with having news that feels like it is constantly breaking is that you can become desensitized to the need to pay attention to it, so they have to resort to other tactics which brings us to our next point. . .

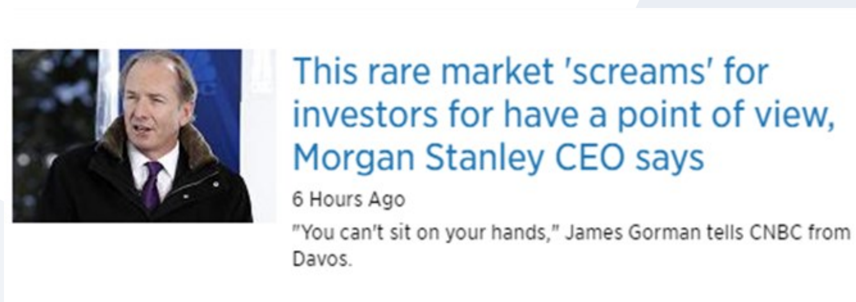
5

They make almost everything sound important.

It is easy to feel on edge as you watch CNBC because you feel like you should constantly be buying or selling something. When markets are going up you feel like you're missing out, and when markets are going down you feel like you're losing your shirt. They have to do that to keep people watching, so they have to make you feel like you're going to miss something important if you don't keep watching, which only adds to an investor's anxiety.

When private companies used to become public companies through the initial public offering (IPO) process, they used to just utilize the services of investment banks or other underwriters and get a low-key mention by the financial press. However during the Internet boom of the late 90's, IPOs turned into circus-like events, shared with the public by CNBC cameras and commentated on like the Macy's Thanksgiving Day parade. The value of these initial public offerings growing beyond reason and making people instant millionaires added to the hype that helped fuel the tech bubble. At the end of the day, it's just a company that is exchanging one form of ownership for another that it hopes will help fuel its continued growth; it is not the premier of a Hollywood blockbuster. That is called a "positive feed-back loop" because the more they talked about tech stocks, the higher they went, which made them talk about them even more and in even more glowing terms, which helped drive them even higher, and on and on it went.

CNBC.com is a little different than the television station because websites just by their nature have the ability to pro-vide easy access to a lot of information. A television channel on the other hand can only have one person talking at a time (though on CNBC sometimes you can have three or four people shouting at the same time), plus a few other things for your eyeballs to scan while you're listening. However, sensationalized news, or "click bait" is still a daily reality because they need you clicking around to hit their advertising goals. Consider the following story:



That's an example of the hyperbole common on CNBC.com. We're including the grammar error in there as it was like that on the website ALL DAY! Don't you feel like you're not doing your job as an investor after CNBC told you this market is screaming for you to have a point of view? If every stock tip, market call, or other financial tidbit were accu-rate than perhaps the hyperbole would be justified, but unfortunately that's not the case because. . .

4

They portray themselves as experts, yet are frequently wrong and are rarely held accountable.

Dow 5000? There's a Case for It

Strategists Still See Rally, but Earnings Point to 1995 Levels for Stocks

By ANNELENA LOBB
Updated March 9, 2009 12:01 a.m. ET

Just how low can stocks go?

Despite Friday's small gain, the Dow Jones Industrial Average marked its fourth consecutive week of losses as it tumbled through the 7000-point mark and spiraled to new 12-year lows. The Standard & Poor's 500-stock index is trading below 700 for the first time since 1996.

"Just how low can stocks go?" – The message of a Wall Street Journal's Money and Investing section story on March 9, 2009. We thought we'd include content from another news source to show you CNBC is not alone in these areas. That article highlighted the possibility of stock indices falling another -22% from that point, which would have been distressing for just about everyone reading the story, however that was the EXACT day most stock market indices hit their low points and started their nearly unprecedented upward run. Instead of being down -22% from that point, the S&P 500 including dividends was up 33% by the end of the year. By no means does CNBC miss out on these opportunities for major swings and misses. Consider this article title from March of 2011:


EUROPE: ECONOMY

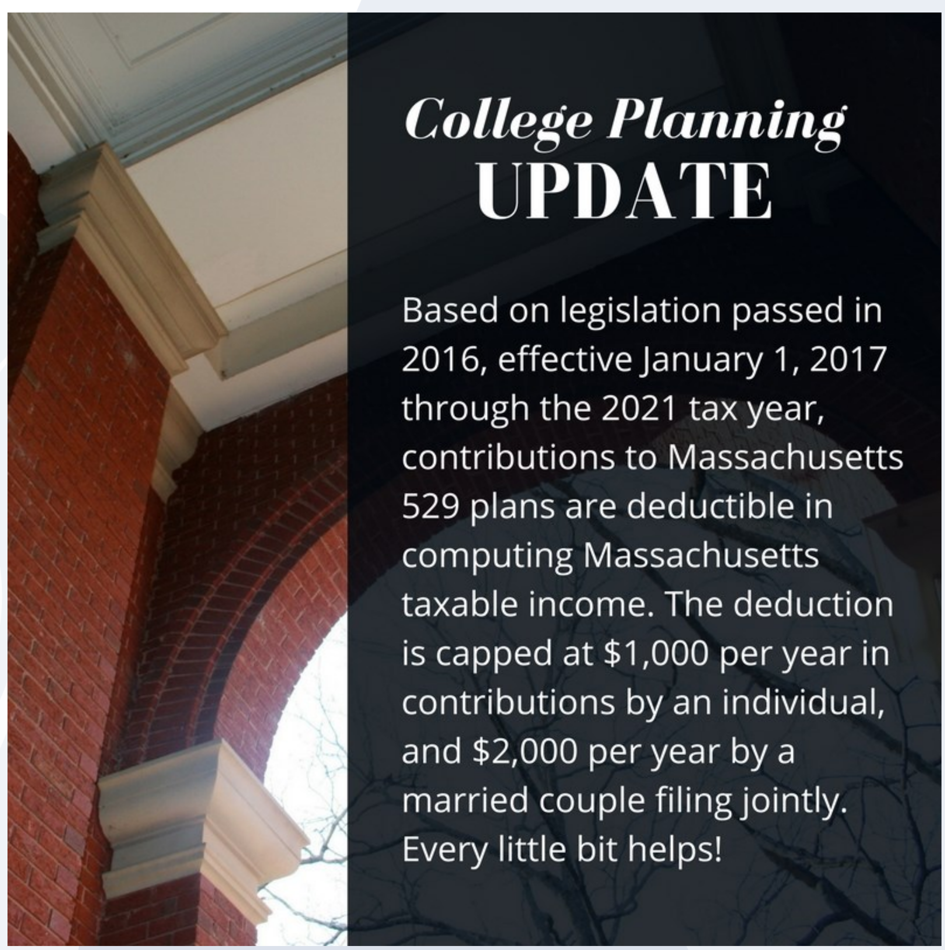
Look to 2013 for Big Drop in US Stocks, Euro Defaults

Antonia Oprita
Friday, 18 Mar 2011 | 3:02 AM ET
CNBC

The actual return of the S&P 500 including dividends in 2013? 32.4%.

Host of the "Mad Money" program on CNBC Jim Cramer famously said on March 11, 2008: "No! No! No! Bear Stearns is fine. Do not take your money out. Bear Stearns is not in trouble. If anything, they're more likely to be taken over. Don't move your money from Bear. That's just being silly. Don't be silly." Five days later Bear Stearns had to be bailed out and its stock price, which had been roughly $60 per share when Cramer made his comment, settled down at $2 per share, a -97% decrease.

These are intelligent people writing these things and giving these opinions, and by and large they do know more about financial markets than most regular investors, but when you have to generate story after story, or give opinion after opinion, your success rate is going to suffer. No one can generate this many opinions within such short timeframes without being reduced to, at best, educated guesses. People have researched the success rate of Jim Cramer's stock picks on his evening CNBC show and they come in at being just under 50% accurate. Here we are back to flipping a coin. One of the problems with this coin flip approach to dispensing investment advice, or prognosticating on major things like how far the markets could rise or fall, is how agitated it makes the people who read these stories or listen to the television pundits. Even if you don't pay attention,



you'll invariably rub elbows with someone who does and their anxiety can rub off on you, so is there any wonder why people end up buying and selling their investments at the wrong times? When the financial media stars get their guesses wrong, they still have jobs; when you use their guesses to get your investment decisions wrong, it affects you for years to come. Even when pundits are accurate, it does not mean their advice is helpful because. .

3

The majority of their predictions and advice is not related to your personal situation.

In August of 2007, a couple months before the stock market peaked ahead of the financial crisis, a CNBC pundit said he expected stocks to "generate 9 to 11% annually for the next ten or fifteen years." It has not been a full ten years since he gave that opinion, so we're about six months early for the shorter side of his timeframe, but including dividends the S&P 500 actually HAS averaged almost exactly 9% since he said that. However, the S&P 500 was down over -50% 17 months after he gave that opinion, and many people retired or close to retirement could not survive a decrease of that magnitude. Time has shown that opinion from that pundit to be right to this point, but for anyone who couldn't afford to lose -50%, or -30%, or even -25%, it doesn't matter that he was right. The manner in which the stock market returned that 9% hurt them to the point that their finances or their nerves would not have survived to the point where they could have realized that 9%. Either they would have run out of money, or they would have reallocated at the worst time and not received enough of the stock market rebound to get that 9%.

What we mean by "personal situation" is not the same as your investments. Personal situation in this sense means things like what is your timeframe, tolerance for risk, and the size of your goal. But even when they are commenting on something that does concern you it's not necessarily all that helpful because. . .

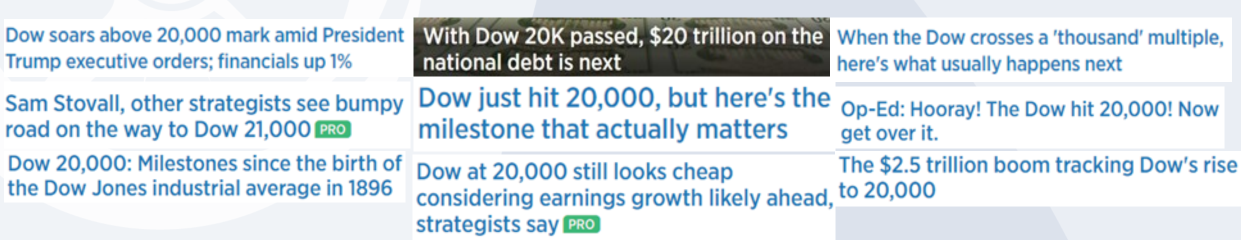
2

80% of their information is related to only 20% of your investments.

I made up those percentages , I confess, but consider it an educated guess. It was a much catchier sentence than what it is meant to convey; that they spend the majority of their time discussing stock prices for large American companies even though the vast majority of available investments are not the stocks of large American companies. A well-diversified investor like someone who is targeting a traditional 50% stock, 50% bond portfolio, only has around 14% of his or her portfolio invested in large American stocks. Add in stocks of small and mid-sized American companies, and the exposure to American stocks is around 19.5% of his or her total portfolio. The majority of CNBC's TV airtime is spent discussing this 19.5%, though they occasionally touch on other subjects like foreign stocks and treasury bonds.

The CNBC.com homepage is similarly slanted toward US stock information, but thankfully a wider variety of information is available if you click on some of the tabs.

To illustrate this US stock-centric approach, the day the Dow Jones Industrial Average crossed the 20,000 mark, CNBC talked about it ALL DAY. Additionally, their website contained the following stories:


Dow soars above 20,000 mark amid President Trump executive orders; financials up 1%

With Dow 20K passed, $20 trillion on the national debt is next

When the Dow crosses a 'thousand' multiple, here's what usually happens next

Sam Stovall, other strategists see bumpy road on the way to Dow 21,000 PRO

Dow just hit 20,000, but here's the milestone that actually matters

Op-Ed: Hooray! The Dow hit 20,000! Now get over it.

Dow 20,000: Milestones since the birth of the Dow Jones industrial average in 1896

Dow at 20,000 still looks cheap considering earnings growth likely ahead, strategists say PRO

The $2.5 trillion boom tracking Dow's rise to 20,000

Is it any wonder CNBC consumers can be overly focused on US Stocks? Keep in mind, the Dow Jones Industrial Average is a price-weighted index of only 30 companies. Because it's price-weighted, the company with the highest price per share makes up a much larger slice of the index than the company with the lowest price per share, regardless of the value of the companies themselves. In this case, Goldman Sachs makes up 8% of the index, and General Electric only 1%. So Goldman Sachs is 8 times more important to the index EVEN THOUGH General Electric is 3 times larger than Goldman Sachs. Think of how much time CNBC dedicates to reporting on the DOW, even though it's only 30 US companies, and even though the index is weighted in a way that an investor would never choose for his or her own investments.

Where's the harm in this? Well, we see two primary harmful effects from this every day. The first is that it shapes investors' perceptions on how their investments should be performing. When US stocks are the primary focus day after day after day, investors expect their returns to be roughly what they hear and see US stock returns to be. A diversified portfolio of just US stocks has averaged around an 8.3% annual return over the past three years. However, all the other components of a diversified portfolio together have only averaged 1.1% per year over the same time period. When you add these all together in the proper proportions, it means a 50/50 portfolio has averaged around 3% per year since the end of 2013. Unfortunately, when the majority of what CNBC covers relates to the small part of their portfolio earning 8.3% per year, investors expect their WHOLE portfolio to return somewhere around that. When US stocks are increasing in value much more than most other investment areas as they have the past three years, that can lead to some disappointed investors because they're not hearing enough that other investment components are not doing as well and that their expectations should be restrained. That can cause them to make their portfolios more aggressive than they should be based on their tolerance for risk, which exposes them to. . .

1

The #1 Way CNBC Hurts Investors: It under-reports on investment risks to an incredible degree.

Although CNBC and CNBC.com focus so much time and resources covering the US stock market, they almost never discuss the RISKS associated with investing in the US stock market. If all they're doing is talking about stocks being "fairly valued", which you can find even right before stocks start a -50% decline like in 2008, and if they're primarily acting as cheerleaders for stocks, it gives the impression that the risks associated with stocks are lower than they are. Add an investor who feels like he or she is not earning enough to an environment where the risks are almost never discussed, and you have people getting more aggressive than they should and losing more than they can afford during the next stock market crash.

Of the 162 different "clickable" items on CNBC.com today, there are only 2 that relate to the downside risk of stocks. That's 1.2% of CNBC.com's homepage content. Here is one of those headlines, and notice the presence of some of the other sins we've addressed in this piece:


Bullish strategist warns: A 'nasty' market drop 'may be imminent'

How large is this "nasty" market drop about which this strategist warns us? -4% to -7%. That's it. In the CNBC world when stocks have been on an almost unprecedented upward run, that's enough to be considered a "nasty" drop. In our opinion, a -4% to -7% move for stocks is not nasty at all, in fact it used to be extremely common. The S&P 500 index had a positive return in 25 of the 32 calendar years from 1980 through 2011. The average return of those positive years was 16%. Three out of every four of those positive years had a point where the S&P 500 was down more than -7%. In fact, even while those positive years were returning that 16% average, they were still experiencing an average low point of more than -12%. So to suggest a -4% to -7% drop as “nasty” is absurd. Is it any wonder investors have a hard time conceptualizing the risks they are taking?

The other story doesn’t help much more:

> **Why one analyst believes the Trump rally could turn into the Trump correction**

At least this one goes a tiny bit further, but is still not all that clear. Technically a “correction” means a loss of at least -10%. So in all 162 of these items, there’s precisely one that hints at the stock market’s current potential to lose at least -10%. What kills us, however, is that NOWHERE in the article does it say that a “correction” means a drop of at least -10%. Even when they’re hinting at something meaningful, they’re still not clear enough to help the average investor.

Despite all this CNBC and CNBC.com bashing, we are not telling you to completely ignore them, nor other financial news media. We watch Federal Reserve announcements on CNBC and pay attention to the movements of the various indices on CNBC.com. Occasionally we will click on a story that includes retirement related opinions or other financial planning topics, but mostly out of curiosity. Additionally, we will sometimes watch when a mutual fund manager or similar industry pundit provides an opinion, but that is also mostly out of curiosity because we know tomorrow they’ll have someone else either saying the same thing, or something completely different, and what happens in the financial markets tomorrow, or next week, or next month may be completely different to what CNBC is predicting so it’s not worth getting worked up over whatever they’re saying.

If you are going to watch CNBC for any length of time, or go on CNBC.com for any reason, just keep your expectations low on how much that information should be used to make your own financial decisions. Knee-jerk predictions, rosy opinions, stock market cheerleading, downplayed risks, short-timeframes, limited information, positive feedback loops and information overload conspire to make investing for short and long-term goals harder, not easier. The next time you’re flipping channels and something catches your ear on CNBC, or the next time you’re on CNBC.com looking for financial news and information, just remember they’re more in the business of short-term reactions than long-term results.

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