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SUMMARY

- Not all headlines have investment implications, in our view.
- Sometimes, an emotional reaction can impair investment decisions.
- We believe it is important to tune out the 'noise' and focus on 'process over prediction.'

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Headlines Could Use a Warning Label

There Is A Difference Between Newsworthy And Investable

There is rarely a dull moment in the 24/7 news cycle and the past few weeks have been without exception. From rising COVID-19 cases to election speculation; investors have been inundated with heavy headlines lately. From these headlines, the obvious question arises… "What should I do in my portfolio?"

In an unscientific study based on decades of investment experience, we have concluded that most of what appears in the headlines does not require immediate adjustments to long-term investment plans for three reasons:

1. Little Relevance: Many news stories making headlines such as minor political scandals, organized public demonstrations, or natural disasters are 'non-investable' in our view, meaning they have little or no direct investment implications. That is not to say they are not important, but rather that there is little clear connection between the news story and corporate earnings, in our view.

2. Too Late: News with clear investment implications like the September 14th, 2019 missile attacks on Saudi Arabia tend to impact asset prices immediately. For example, the price of a barrel of West Texas Intermediate (WTI) crude rose 16% on September 16th, 2019 the first day the oil markets opened after the attacks. It is also common for the market to over-react to initial headlines and the impact to dissipate over time.

3. Too Early: Often the hottest news, like the news relating to an upcoming election, is often too incomplete, too inconclusive, or subject to too many unknown variables to allow an investor to make an informed investment decision. For example, the president's legislative agenda is not decided in a vacuum, which is why it can differ materially from what may have been discussed on the campaign trail. Ultimately, the president's agenda will be influenced by the make-up of Congress and by the macro-economic environment present when they take office.

For this reason, we may want to consider putting warning labels on newspapers, radios, televisions, computers, and mobile phones, like those seen on other potentially dangerous products. A suggested warning label might read: *DANGER Headlines Can Impair Investment Decisions. Consult Professional Before Portfolio Adjustment.*

That being said, not all news should be ignored. Our process is designed to identify the news that could affect the long-term trajectory of corporate earnings, or the value that investors place on those earnings. For example, once we had fully analyzed the implications of the Brexit vote, we became more cautious on the UK and Europe, a stance we still have today.

Bottom Line: We believe that the best investment decisions are made when investors can tune-out the noise and focus on the news that is most likely to carry meaningful investment implications. The final arbiter of news, in our opinion, is the market. Everyday millions of individuals determine what news is important and what is not through the buying and selling of stocks and bonds. James Surowiecki's seminal book The Wisdom of Crowds (2004) concluded that the collective insights of the many are superior to those of the few. Therefore, while we have theories about what news matters and how it should be interpreted, we must always recognize the market's message, especially when it conflicts with our own. As we wait for additional clarity and ultimate resolution of many of today's headlines, we will stay vigilant, adjust our portfolios accordingly and continue to focus on 'process over prediction.'