by DOUG SANDLER, CFA

THE RIVERFRONT WRITING TEAM

ADAM GROSSMAN, CFA
Global Equity CIO |
Co-Head of Investment Committee

CHRIS KONSTANTINOS, CFA
Director of Investments |
Chief Investment Strategist

KEVIN NICHOLSON, CFA
Global Fixed Income CIO |
Co-Head of Investment Committee

DOUG SANDLER, CFA
Head of Global Strategy

ROD SMYTH
Chairman of the Board of Directors

DAN ZOLET, CFA
Associate Portfolio Manager

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 fears about another banking crisis to worries about the upcoming debt ceiling; 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 failure of several regional banks in the first few months of 2023, tends to impact asset prices immediately. In other words, prices have often already fallen (or risen) significantly by the time the news is disseminated. It is also common for the market to overreact 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, an administration'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.

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.'