

Tools of the Trade: Don't Believe the Hype

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Being an advisor is a bit like being a parent. It's easy to impart knowledge and lessons when you're in front of your "kids" at client meetings, seminars, and so on. Unfortunately, the face time you get with clients is relatively limited. As with your kids, most of the time your clients are out there in the real world—liable to be swayed by any number of temptations that will lead them to make bad decisions about their capital. Eventually, you can only hope your messages have gotten through.

Case in point: The popular financial press. It's almost impossible these days not to stumble across a newspaper column, magazine, television show, or even an entire TV network devoted to the topic of investing. Investment advice is literally everywhere. The question your clients must learn to ask themselves is whether all that advice is any good.

In a previous Investment Advisor column ("House of Games," October 2004), I explored the incentive system that motivates brokers and other transactional-based members of our industry, and showed the many ways in which that system is flawed—that is, it is designed to benefit the person and the firm doing the selling, not the client with the money to invest.

Much of the financial press also operates with incentives which may not be in the interest of investors. Publications such as *Money* and *Smart Money* have an agenda your clients will understand with a little education from you. Like any business, their goal is to increase their revenue. They do so by running stories that will maximize their audience and, accordingly, their advertising revenues. What types of stories do that? All too often it is some version of "The Best Five Stocks for the Coming Year" or "The Next Microsoft"—headlines that will motivate a reader to buy the publication in order to learn how to make a killing in the market.

In my opinion, this type of investment advice can be more dangerous than the stuff you get from a salesperson. After all, the SEC and other regulators might come down hard on financial services firms that don't operate in their clients' best interests. But there is no one around to hold the financial media accountable for its actions when it steers investors into making poor decisions with their money. When "The Best Five Stocks" turn out to be a poor investment, does anybody care about the retired couple that followed that advice and had their retirement funds depleted? Apparently not.

The press has an acute understanding of how most investors think—that you need to know the future in order to invest successfully. Therefore, they focus on making forecast after forecast. Traditionally they've done so by having their writers pick up the phone and call sources who profess to have a crystal ball. Often these sources are Wall Street analysts and brokers—the very same people who focus on making sales instead of giving solid advice.

This arrangement is so obviously conflicted. Financial reporters—often fresh out of journalism school—go out seeking an honest, objective viewpoint for the story they've pitched or been assigned. Yet they head right for the Wall Street salesmen who have massive agendas. The result, of course, is that the journalist ends up adopting the source's agenda and communicating it to thousands of readers looking for investment information. In such a

scenario, the journalist's needs are served—he got a story—and the Wall Street source's needs are served—he got to promote his own firm or a company he covers. The only losers are the readers, who desire the "fair and unbiased" reporting that many promise but few deliver.

So why does the media go to these industry sources in the first place? There are several reasons. For starters, the enormous growth in the number of people participating in the capital markets has created a huge demand for financial news (how else do you explain multiple cable networks devoted to financial markets?). And magazines hire journalists, not investment experts. Journalists rely on their sources for knowledge and expertise—and if they believe their source is credible, they write what they are told. Unless you have actually worked in the financial services industry, the chances of you being aware of all the conflicts is remote.

The media also has to fill up space, based in part on how much advertising they sell. If there's a three-page (or three-minute) gap, you can bet that someone at the magazine or network will generate a story to fill it—even if the "advice" the story provides comes from a Wall Street salesperson with a separate agenda.

Perhaps the most pervasive reason the media loves to court these sources is because they offer "sizzle"—commentaries that are designed to lure readers in, get their pulses racing, and encourage them to buy the magazine. Commenting on these sensational stories, Jane Bryant Quinn of Newsweek referred to them as "investment pornography—soft core, not hard core, but pornography just the same."

These are the media-hyped stories that you must educate clients about. Help them understand what's really going on when magazines print headlines like "The 20 Best Stocks for the Next Year." The fact is, these stories are always designed to grab clients' attention—and very rarely meant to offer the type of advice that will give them a successful investment experience.

The good news for you is that it doesn't take much effort to prove this fact to clients. Advisors are always asking me for the right wording and the best examples to help them discuss important topics with clients. When it comes to the media, there's no shortage of examples of conflicted—or just plain bad—advice. When I speak at conferences on this topic, I usually just stop at the airport newsstand and pick up the current issues of the most popular magazines or watch CNBC for a few minutes. Inevitably, I find an example to give to advisors that day.

One of my colleagues collects these stories and revisits them in a few months to assess the damage done by the "advice." A quick review reminded me of some of my all-time favorites.

- "Don't Just Sit There...Sell Stock Now!" August 1997 *Money*. Market timing, anyone?
- "Everyone's Getting Rich," May 1999 *Money*. Actually, those readers who took Money's advice in August 1997 and sold stock probably weren't getting rich!
- "Bearish on America," July 1993 *Forbes*. This one is tough to beat—Morgan Stanley's Barton Biggs dressed up in a bear costume on the cover of *Forbes*, imploring readers to sell U.S. stocks and buy emerging markets (which, by the way, performed terribly for the next three years).
- "The Death of Equities," August 13, 1979, *Business Week*. OK—this one wins. The magazine tells us that "the old rules no longer apply" and the "the death of equities is a near-permanent condition." I almost don't need to point out that

this call was made essentially on the eve of the greatest bull market in history for stocks.

I could fill this entire column with similar headlines, but the point is this: Once again, we see that trying to predict the future is a loser's game. The screaming headlines prove that even the biggest names in the industry don't have an accurate crystal ball. But the magazines and TV networks will always keep putting their faces out there for one reason: Forecasts and hype about the riches to be gained sell magazines—and that makes the advertisers very happy indeed.

It's even more interesting to see the almost covert endorsement of passive or indexed strategies by media professionals. It's pretty obvious that headlines like "Buy and Hold!" or "Best Bet: Do Nothing!" don't titillate readers or help sell magazines—a scenario that makes advertisers very unhappy indeed. And yet, in a past issue of the now-defunct *Worth* (cover headline: "The World's Highest Yields"), we find an article noting that "the index fund is a truly awesome invention (that) should constitute at least half your portfolio." Even better, a former mutual fund reporter admitted in *Fortune* that "by day we write 'Six Funds to Buy NOW!' By night, we invest in sensible index funds...unfortunately, pro-index-fund stories don't sell magazines." Bingo! Straight from the horse's mouth.

Turn It Off

My advice is simple: Emulate my colleague and clip any big headlines and predictions you know to be preposterous. Revisit them after several months have passed and see how following the advice would have panned out. Mention these results in your client newsletter, or make copies and mail them to clients as a reminder of why it's so important to ignore the hype and invest using a firmly entrenched belief system. Believe me, it won't take many examples for the message to sink in.

Of course, our human nature wants us to get excited by hype and pay attention to big, sexy predictions, so it's best to make these reminders part of your regular client contact strategy. Like children, clients will forget your lessons—unless you remind them. This is especially true if you work with retirees, who are most likely to be swayed by the media's claims. These types of clients not only have the most time of anyone to read lots of financial magazines, they also are often the most nervous about their future financial prospects. They need you to rein in what is a natural desire to act on the recommendations of the magazines, newspapers, and talking heads on TV.

This process may also be of value to you. It will remind you not to get caught up in forecasts—your own or those of the "experts." We all have opinions, of course. The key is to behave with clients as an agnostic. When I was an advisor, I always told my clients that I had my own opinions about the future direction of stock prices but God forbid that I would invest their capital based on those opinions. They "got" that message and it served them (and me) well.

Ideally, your message will resonate so that your clients stop looking to the media entirely. At the very least, you can get them to see that *Money*, "Squawk Box," and the rest should be enjoyed for what they are—entertainment, not a source for actionable advice. In either case, you'll make clients happier, more confident, and more assured that they're on the right path

to a successful investment experience. The result: You'll end up building a stronger practice in the months and years ahead.

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