Investor Emotions & Media Influence

Posted on October 14, 2014

During a recent client call, the topics discussed included **how the media influence people's investment behaviors.** This client woke up one day with an 'epiphany' thinking that a market correction was just around the corner. They did admit after a discussion that they had been reading something to that effect in the newspapers during the weekend.

It was pointed out that the media has been calling for or predicting a market correction? of some sort since June. So far, despite many such articles, **their predictive track record is terrible.** As the old saying goes, 'Even a broken clock is right twice per day'.

Often the media describes its role as being to report on events by presenting facts and viewpoints from both sides of a topic. Yet when it comes to reporting on the investment markets or the economy such a balanced approach is often lost.

A favourite reporting tool is to rely on specific numbers giving the illusion of certainty or truth to the news item. For example some radio stations will cite pre-market futures indicators as providing certainty that the investment markets will open on a positive or negative basis. The reality is that there is no more than a 50\50 chance that such a data point will be correct. Besides, it does not matter how the market 'opens' or 'closes' for anyone focusing on building wealth by investing in quality companies that are growing their profits over time!

The media often purposely stirs up people's emotions and keeps people on the edge of their seats. It makes for great entertainment but can produce poor outcomes if you act on that information. The result of such stories is that they induce unnecessary anxiety in the readers about any number of potential events **-** many of which never happen. As Mark Twain once famously wrote: 'the reporting of my death was an exaggeration'.

The function of the media is like this analogy about human nature: It is sunny 95% of the time but human beings run around worrying about the 5% of the time it might rain and never fully enjoy the sunny days!

This approach to handling your financial affairs can be very costly to your long term financial health. Numerous research reports have shown that the more active investors are with their individual investments (buying and selling often) the more likely they are to lose money or under perform the general market.

Good investing is like watching paint dry: boring! Success takes patience and the emotional strength of being able to avoid being distracted by the media's constant harping about all of the things that might go wrong in the next few days or weeks. As an investor you potentially make money as people go about their daily lives; such as when they eat, drink, drive a car, go to a movie or any of the other mundane life activities that involve some sort of consumption. There is no real benefit for a long term investor to looking at investment values every day.

When it comes to dealing with media reports, the best strategy is always to simply assess how the news affects your personal situation, if at all. Then sit back and relax.

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