



NAVIGATING THE NOISE

“Billions of bytes of market data give investors no more ability to pick stocks than to pick numbers on a roulette wheel.”

*The Illusion of Control
Study on Investor Behavior
University of California*

With the proliferation of specialty channels focused on the financial markets and the wide access to information through the internet, there is now a vast amount of financial data available to investors. Many investors believe that all this information will help them make better financial decisions. Unfortunately, they are wrong. As Richard Bernstein says in his book, *“Navigate the Noise”*:

“Investors are showered with so much irrelevant information, or noise, that the truly relevant information gets buried or overlooked as being too obvious to be important. Investors need a great deal less information than is available to make an informed investment decision. More important, they need less information than they think they need. I believe an increased number of bad investment decisions are being made because of the increased availability of information.”

This problem of noise pollution is two-fold:

1. What information is really important?

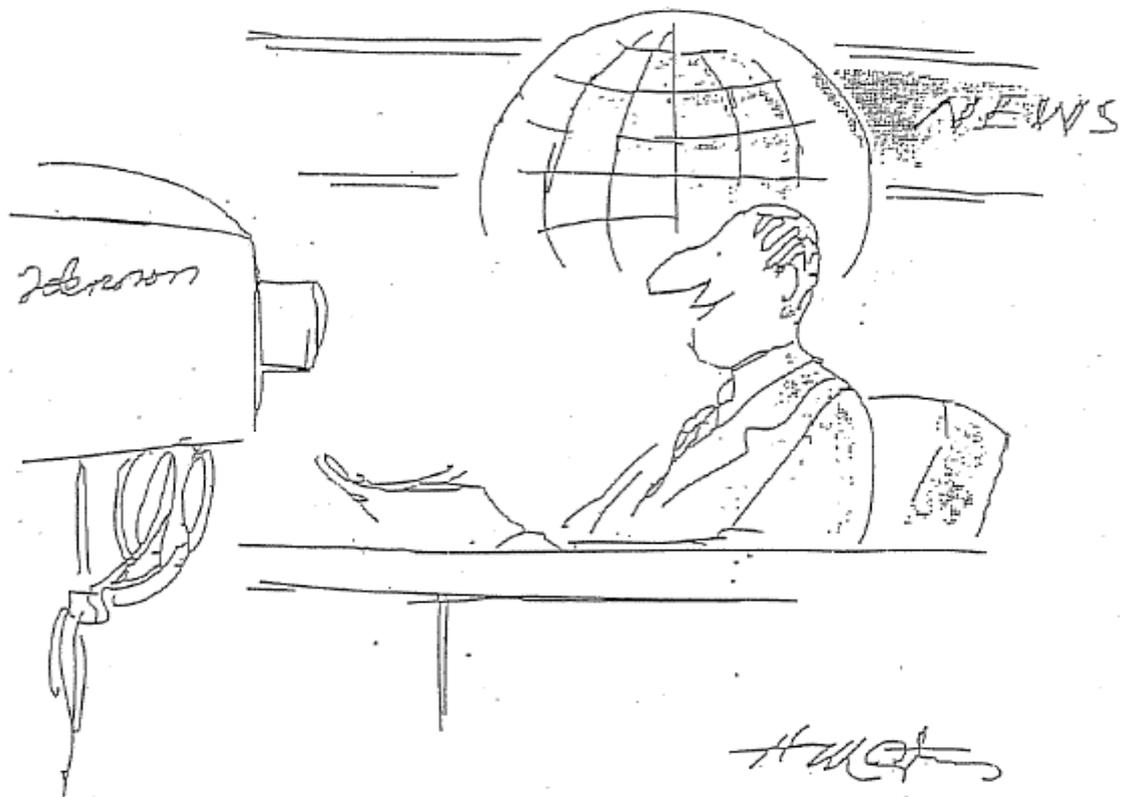
The news media may focus on a couple of news items such as the decline in the U.S. dollar or the latest change in interest rates. But these are only two factors that affect the markets. There are literally dozens of other factors which must be considered and these other items may be much more important than the items discussed in the news media.

2. How much of the information is already “in the market”?

All the news that we receive is also known by thousands of other very competent participants in the market and they will immediately factor this information into their decision-making. In other words, all that we know has already been incorporated into the current market prices. The only news that is really important in moving the market is the unexpected news, which of course was previously unknown.

The next time you read the Financial Section of the paper or turn on the Business Channel, remember that the reporter or commentators’ job is to grab your attention and entertain you. If he or she really wanted to help you with your investment program, they would advise you to have a competent professional manage your portfolio, and to switch to the golf channel for entertainment.

(See over)



"... And on Wall Street, the markets generated another exciting day's worth of meaningless white noise."

(See over)