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"Helping Business Owners and Professionals Retire on Time"

Out of Sync: The Stock Market and the News

A lot of investors think that they need to keep up on all the news that traders need to. But long-term investors do not. In fact, a lot of news is fluff.

Whenever there is a sharp drop in the stock market, such as the Dow dropping 465 points during early trading on January 22, 2008, investors want to know what is causing this. Naturally, they turn to the business news. There, investors may learn about the weakness in the housing market, slow economic growth, or trouble overseas. This, the business media says, is the cause of the big drop.



Dick Davis, author of "the Dick Davis Dividend", thinks that the business news isn't really all that helpful to the investor. That's because the business media misses the most important fact about the market – that the market is illogical. And Business news doesn't answer the question on everyone's mind – why today?

Business news, like all other forms of news media, focuses on the news. Day after day, the media discusses news items, such as rising oil prices or the struggling housing market. When the media is asked to explain a sudden drop in the market, they focus on what they are most familiar with – the news of the day. This creates the perception that the news events cause markets to move.

However, Davis suggests that this perception is backwards. It's the action of the stock that occurs first, and the news is spun to fit the move by emphasizing the good or bad aspects of the story. Davis uses the example of a company releasing a report with losses. If the stock rises, then the story will be that losses aren't as bad as expected. If the stock falls, then the story will focus on the disappointment of the losses.

Attributing large drops in the market to news stories does not explain why the large drop occurred today rather than yesterday or last week. Things like struggles in the housing market or credit sector have been going on for months! Why do these struggles cause the market to drop 400 points today, when yesterday the market rose slightly in spite of those same housing and credit struggles?

Since its not news events that cause the market to take a huge dive in one day, then what is? Davis suggests that investor emotions have a lot to do with it. He writes "Fear and greed are highly contagious. Both are quickly activated by sudden, extreme price moves. The intensity of the selling and the steepness of the decline make investors believe that their worst fears are about to become reality. As

prices plunge and momentum accelerates, their instinct is to sell to protect profits and limit losses.” The market itself drives much of the action on the market.

It's actually impossible to really know what is causing the market or a particular stock to rise or fall. There are thousands of buyers and sellers of stock each day. Each one has their own reasons for behaving the way he or she does. This can be things like fear and greed, or personal financial situations, or a whole host of non-news-related factors. There is no single factor or pattern of factors to point to that explains the action of the market. This is why Davis calls the market illogical.

To the long-term investor, business news of the day is really a distraction. Long-term investors maintain their focus on the long term, and the daily news, good or bad, does not change that focus. With a long term approach, the news of the day will soon be forgotten, and the investor will still be on the path to accomplishing his investing goals.

In summary, remember to stay long-term invested. We have an over 100 year history of stocks going upward!