

Does financial news matter?

<http://www.financialplanet.org>

Warren Ingram, CFP says financial news is noise:

It might seem strange for a person who appears regularly in the media to state that financial news is noise. I feel that very little financial reporting contains valuable information. Real-time financial news actually inhibits good financial decision-making. Most investors would be better off if they ignored financial news.

Financial Hype

If you follow financial news in real time i.e. on TV, radio or the internet, you are most likely getting sound bites designed to grab your attention. This means you are being fed dramatic headlines and stories filled with vivid descriptions of what happened in the markets 10 minutes ago. This is the financial equivalent of consuming coffee via a drip injection. It will get your heart racing but it is definitely bad for your health.

Any external event that is so significant that it will affect your financial position is likely to happen so suddenly that you will not be able to react to it until it is too late. For example, if there is another terrorist attack that closes down Wall Street, the damage would have been done before you have time to react. Less dramatic events like the publication of a country's inflation data will get a lot of airtime from the media. However this information is only marginally relevant to your long-term investments. As Warren Buffett said in his last shareholder's meeting, he has never made an investment based on economic forecasts, if he does not worry about this, why should we?

What to Read Instead

Personally, I have tried to insulate myself from market noise by avoiding all daily broadcasts and publications of financial news. I only read the headlines of one daily business publication to ensure that I am aware of any major market-moving event. By this I mean an earth quake, assassination of a political leader or terrorist attack, not minor events like a speech by a politician. I obtain my financial information through a range of periodical publications and investment journals as these provide a better perspective on what is happening in the world. I started this habit five years ago and while it was quite daunting in the beginning, I found that my financial decision making actually improved. During the Global Financial Crisis I was able to maintain a relatively even keel despite the dramatic events that were taking place around the world. This proved valuable when I was talking to clients because I was able to give them perspective.

It is obvious that market traders need access to real-time information. However long-term investors (including professionals) might be better off limiting their intake of daily financial news. In my view, valuable investment information is most often obtained in periodical journals, books, lectures and discussions with seasoned professionals. It is far better to read about investment principles and long-term demographic trends than it is to be updated on the latest price movements of shares, commodities and currencies.

Create Your Own Bubble

I feel that the best way to make sound financial decisions in all stock market conditions is to build a financial game plan that does not rely on predictions, forecasts or short-term fluctuations. Your game plan should be built on factors that you control i.e. your assets, debts, income, expenses and objectives. You cannot control stock market fluctuations so ensure that your planning caters for rising and falling markets. By doing this, you will be able to use your plan as your anchor for making sound decisions. This will make life a lot more relaxed for you and will enable you to cut out the financial noise.