Segal Marco Advisors

INVESTMENT
BRIEF

HOT TOPIC March 13, 2020

Investing Without an Information Edge in the World of Constant and Conflicting Information

This was a headline in the *New York Post* on February 27, 2020: "Americans are avoiding Corona beer amid coronavirus outbreak, survey finds." Noting that 38 percent of beer drinkers would not buy Corona beer, the survey firm announced, "There is no question that Corona beer is suffering because of the coronavirus." Yet, according to *Barron's* magazine, Corona's producer indicated that U.S. sales are up in the early part of the year, and the company doesn't have much exposure to international markets such as China. Hmmm, is it possible that the 38 percent just don't like Corona beer and prefer some sort of IPA from Muskegon, Michigan? In any case, the findings go viral, with those wanting to point a finger at the gullibility of the American beer drinker likely doing the posting.

But it is not just social media that can be problematic. Consider this March 1 headline in the *Financial Times*: "Falling oil prices threaten to derail Putin's spending promises." Then in CNBC one week later: "Putin just sparked an oil price war with Saudi Arabia." What the heck — is he crazy? We could go on and point out item after item related to the economy, the markets, politics or just life itself to demonstrate how much confusion there is, some seemingly just filling in information blanks and others clearly intended to be disruptive, about what is fact and what is something else entirely.

Behavioral biases

The point, however, is a simple one: in times of turmoil or volatility, we are particularly susceptible to the effect our behavioral biases have upon perception and perspective. When we must make decisions in periods of uncertainty and our flight-or-fight instincts are heightened, human beings tend to rely more heavily on the most recent past (recency bias); information that confirms our beliefs (confirmation bias); and easily recalled (and often repeated) information (availability bias) — all to the detriment of good decision making.

Let's consider some examples in the current environment. The U.S. stock market has exhibited very little volatility for most of 10 years, but has been very volatile during the last month. Will markets be more volatile going forward? For most, it seems that future is a given. On the one hand, coronavirus (COVID-19) happening now confirms for some that Democrats would do anything to win, and for others, the response from the White House proves that they just care about being reelected. (Somehow, both groups assume that someone actually gains from thousands of illnesses, deaths and market and economic woes.)

We have experienced huge losses as evidenced by the LARGEST POINT DECLINES IN HISTORY! Yet, the U.S. market is down around 20 percent so far in 2020 and has not yet erased the gains of 2019. In 1987, the market was down 23 percent in a single day. Since the actual Dow average was so much smaller then, the point decline on October 19 that year would not even have been noteworthy today.

If they keep telling us it is HISTORIC, well it must be, right? This is also representative of framing bias where the context drives perception. To put it simply: We are in a period where emotions are overwhelming fundamentals.

Unbiased facts

To cut through some of the noise, it may be helpful to focus on information that we can call unbiased facts:

- The S&P 500® has had a positive return in 10 of the last 11 years.
- Every stock investor has made much more money during this period than expected.
- The Aggregate Bond Index has had a positive return in nine of the last 11 years.

- As interest rates have generally fallen, asset prices have increased, allowing bond investors to likewise make more money than expected.
- The current economic expansion is the longest in U.S. history, far outstripping the average.
- While growth rates have been slower than in the past, economic growth has supported markets, employment and general levels of consumer confidence.
- Markets decline — often violently — and recessions happen, generally without intent.

Context

While it is said that economies and market expansions don't die of old age, winning inevitably leads to losing, just as periods of loss inevitably are followed by periods of gains. Although it may seem like a lifetime ago, it was in 2008 when many were convinced that equity investing was a failed strategy — which then transformed into an almost 12-year bull market.

We should also add that, as is often the case in periods of great transition, there will be opportunities for some investors to take advantage of mispricing and dislocations.

The takeaway

The takeaway is fairly straightforward: If you have information that provides you with a decided edge regarding what is going to happen next in economies, politics and markets, by all means you should act accordingly.

It is, however, important that you test that edge:

- Are there biases embedded in the way you parse what you know or think you know?
- What are the sources of your "facts"?
- What do those sources have to gain or lose in supporting their position?
- Can you corroborate your edge from other sources, particularly those with alternative experiences and biases?

Many if not most will conflate what they believe and want to believe into what is truth and fact and then act upon that result. This is, of course, a primary cause of perhaps the best way for an investor to fail — the whipsaw. For just as they were convinced that this is THE time to sell/buy, they will shortly be able to point to incontrovertible evidence that it is THE time to do the opposite.

If this sounds like advice to "stay the course," that is not quite accurate. The perspective here is that you *should* respond to an information edge — you just have to make sure you have said edge. Right now when it comes to COVID-19, only the foolish or misinformed believe they have one. ■

Questions? Contact Us.

For more advice on managing market volatility, contact your Segal Marco Advisors consultant or Tim Barron, Chief Investment Officer, at 203.621.3633 or tbarron@segalmarco.com.

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