

How to Read Financial News Headlines

Robert Martorana wrote a good piece at the Enterprising Investor for the CFA Institute on how to read the news from the perspective of a portfolio manager.

This was really good:

Rather than reading less, portfolio managers must learn to rapidly detect what is nonsense and move on. It's a necessary skill when confronted with the hype and sensationalism now masquerading as news.

Here's a quick summary of some of his tips and ideas:

1. Understand the consensus.
2. Seek disagreement.
3. Question the narrative.
4. Respect the data.
5. Avoid partisan interpretation.
6. Develop your own framework.

And a few ideas of my own:

- Don't assume everything that's interesting or entertaining is also actionable.
- Find a trustworthy curator (i.e., [Abnormal Returns](#)).
- Have good filters in place to know what's relevant to you and what's not.
- Know your history so you can understand that most current events and news will be worthless in short order.

But this got me to thinking -- if portfolio managers have a difficult time sorting through the noise of the financial news, can you imagine how confusing it must be for regular investors? Plus, people don't really read the news anymore. It's all consumed through headlines.

So here's my take on how to read financial news headlines:

Headline: Stocks Rose/Fell Today by 1% Because of _____

How to read it: Millions of shares traded hands today because investors all have different goals, strategies, risk profiles, holding periods and ideas.

Headline: [Popular economist/fund manager] Expects Market Volatility to Pick Up Later This Year

How to read it: Saying you expect volatility to pick up at some point in the future is like saying you expect it to rain at some point in the future. And volatility works both ways -- to the upside and the downside -- so really this is just a way of saying the markets will fluctuate, which of course they will.

Headline: George Soros Gained/Lost \$1 Billion

How to read it: Soros has around \$25 billion so what he does with his money shouldn't concern most investors.

Headline: Markets Got Slaughtered Today: A Sign of Worse Things to Come?

How to read it: No one ever really knows why stocks rise or fall on a single day. The market is up just over 50% of all trading days and down just under 50% of all trading days so you can never put too much stock in any one day.

Headline: Investors Are Dealing With More Uncertainty

How to read it: The future is always uncertain. The past just feels more certain because now we know what really happened.

Headline: Are Market Overbought Here?

How to read it: Ask us again in a few months.

Headline: [Democrats/Republicans/current or past president] Caused X% of Economic or Stock Market Growth

How to read it: Presidents or political parties don't personally control economies or stock markets made up of millions of participants and trillions of dollars all wrapped up within a complex adaptive system. These things don't come with levers that you can pull to make them rise or fall.

Headline: The Stock Market Enters a Painful Correction

How to read it: Retirement savers rejoice as stocks fall on the week. Those with decades to save & invest should hope it continues.

Headline: _____ Could Cause Gold Could Rise to \$1500/oz.

How to read it: Total guess. No one has a clue.

Headline: Is This the Stock-Picker's Market We've Been Waiting For?

How to read it: It's both always and never a stock-picker's markets because it all depends on the quality of the stock-picker, not the market.

Headline: Goldman Sachs Expects Stocks to Rally For the Next 3 Months

How to read it: Big financial firms have so many strategists that there will surely be a research piece put out in the coming days that totally contradicts whatever they just predicted.

Headline: When Will the Fed Raise Rates?

How to read it: Has Fed policy really ever helped you make better investment decisions? Even if you knew exactly what they were going to do in the future you still have no idea how other investors will react.

Headline: Investors Panic as Stocks Enter a Bear Market

How to read it: Don't panic -- expected returns and dividend yields go up during bear markets. This is a good thing for long-term investors.

Headline: A Perfect Storm Caused Markets to Fall

How to read it: Stuff happens in the markets and we like to attach important-sounding narratives to everything. 100-year storms now seem to come around once a month or so.

Headline: [Permanently-bearish pundit] Predicts a Market Crash Worse Than 1987

How to read it: Certain pundits are constantly predicting peril and end times for the markets and the economy so expect to read a few of these every week as they'll continue guessing until they're finally "right."

Headline: The 10 Best Stocks to Own Right Now

How to read it: Here are 10 random stocks we think could go up for reasons we are purely speculating on.

Headline: Investors are Cautiously Optimistic

How to read it: We've got nothing so we're going to run this classic that gives no information whatsoever.

Headline: Earnings Growth is a Second-Half Story

How to read it: No one ever really checks back on these predictions in the second half of the year so this is a great way to predict almost anything and not be held accountable.

Headline: Is [hot stock du jour] a Buy Here?

How to read it: Chances are, by the time you see a fad stock in the headlines you've already missed your opportunity to buy.

Source:

[How to Read Financial News: Tips From Portfolio Managers \(Enterprising Investor\)](#)

I'm pretty excited to announce I've just started writing for Bloomberg. My first piece came out this morning:

[Investors Need to Look Well Past the Inauguration \(Bloomberg\)](#)

Now here's what I've been reading this week:

- How to beat high-frequency trading ([Reformed Broker](#))

A Wealth of Common Sense

Personal Finance, Investments & Markets

<http://awealthofcommonsense.com>

- Pursue meaning instead of happiness([NY Mag](#))
- The pitfalls of prosperity ([Humble Dollar](#))
- Ignorance of the future ([Irrelevant Investor](#))
- What isn't getting enough attention these days? ([Peter Lazaroff](#))
- How long is now? ([Seth Godin](#))
- "Investment returns are not a direct function of how long or hard you work or how much you wish to earn." ([Waiter's Pad](#))
- How Michigan craft brewers aim to take over the country ([Freep](#))