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- **Not all headlines have investment implications.**
- **Sometimes, an emotional reaction can impair investment decisions.**
- **It is important to tune out the 'noise'. For us, the headlines that matter most relate to our 3 Rs: Rates, Recession, Resolution of Trade Disputes.**

Headlines Could Use a Warning Label

THERE IS A DIFFERENCE BETWEEN NEWSWORTHY AND INVESTABLE

There is rarely a dull moment in the 24/7 news cycle and the past few weeks have been without exception. From Congressional impeachment inquiries to attacks on one of the world's largest oil producers; investors have been inundated with heavy headlines lately. From these headlines, the obvious question arises…"What should I do in my portfolio?"

In an unscientific study based on decades of investment experience, we have concluded that most of what appears in the headlines does not require immediate adjustments to long-term investment plans for three reasons:

1. Little Relevance: Many news stories making headlines such as minor political scandals or organized public demonstrations are 'non-investable' in our view, meaning, they have little or no direct investment implications. The 'yellow vest' protests in France earlier this year, or those currently happening in Hong Kong, come to mind as two recent examples of headlines that we believe are non-investable.

2. Too Late: News with clear investment implications like the September 14th missile attacks on Saudi Arabia tend to impact asset prices immediately. For example, the price of a barrel of West Texas Intermediate (WTI) crude rose 16% on September 16th, the first day the oil markets opened after the attacks. It is also common for the market to over-react to initial headlines and the impact to dissipate over time. Today, the price of WTI has already retraced 87% of its initial September 16th move.

3. Too Early: Often the hottest news, like trade talks or even the news related to the House's September 24th impeachment inquiry are too incomplete, too inconclusive, or subject to too many unknown variables to allow an investor to make an informed investment decision. For example, we do not yet know if the impeachment inquiry will lead to an impeachment vote by the House or if the inquiry will help the President by galvanizing his voter-base. How the President will react is also an unknown. Some argue that the White House Administration could counter-strike by fast-tracking voter friendly policies including prescription drug price controls, trade dispute resolutions, and/or cuts to the capital gains tax.

For this reason, we may want to consider putting warning labels on newspapers, radios, televisions, computers, and mobile phones, like those seen on other potentially dangerous products. A suggested warning label might read: *DANGER Headlines Can Impair Investment Decisions. Consult Professional Before Portfolio Adjustment.*

That being said, not all news should be ignored. Our process is designed to identify the news that could affect the long-term trajectory of corporate earnings, or the value that investors place on those earnings. For example, once we had fully analyzed the implications of the Brexit vote, we became more cautious on the UK and Europe, a stance we still have today.

For 2019, what we are most interested in is the news that affects the '3 Rs' from our 2019 *Outlook*: Rate strategy from central banks, Resolution of the US/China trade war, and Recession risk for global economies.

RATE STRATEGY:

- Within the US and around the world, interest rates are historically ultra-low and thus conducive to further stock market gains, in our opinion.
- In the US, the Federal Reserve has lowered rates twice this year and remains vigilant regarding risks to both the US and global economy. The European Central Bank (ECB) recently revived its asset buying (QE) program, and the Bank of Japan is hinting at further accommodation. Most other global central banks are following suit.
- Dividend yields in all major markets are well above risk-free bond rates, which we believe suggests that stocks are still reasonably valued.

RECESSION RISK:

- Our preferred indicators for US recession – sentiment indicators related to businesses and consumers – still remain in solid territory, in our opinion. We are monitoring this data closely for signs of strain, particularly among consumers, since their confidence can be the most susceptible to negative headlines.
- Outside of the US, we are increasingly concerned about regions like Europe and Asia. In particular, manufacturing sentiment in export-oriented regions like Germany and South Korea appear to be in recessionary territory.

RESOLUTION OF TRADE WAR:

- Recent body language between the US and China suggests a thawing of tensions. We believe it is too early to get excited, but think it illustrates that both sides are aware of the negative economic and political ramifications of further escalation.
- In other news, the US and Japan have recently agreed to a trade deal that cuts tariffs on high profile items like US farm goods and Japanese machine tools – we view this as constructive for both regions.

Bottom Line: We believe that the best investment decisions are made when investors can tune-out the noise and focus on the news that is most likely to carry meaningful investment implications. The final arbiter of news, in our opinion, is the market. Everyday millions of individuals determine what news is important and what is not through the buying and selling of stocks and bonds. James Surowiecki's seminal book *The Wisdom of Crowds (2004)* concluded that the collective insights of the many are superior to those of the few. Therefore, while we have

theories about what news matters and how it should be interpreted, we must always recognize the market's message, especially when it conflicts with our own. As we wait for additional clarity and ultimate resolution of many of today's headlines, we will stay vigilant, adjust our portfolios accordingly and continue to avoid excessive risk taking (See our Weekly View from 8/26/19: *This is Why We've Been Drinking Water*).