



Six reasons to turn off the TV
Why CNBC is the wrong channel for long-term investors

CNBC is a remarkable creation, a valuable 24/7 source for financial news. When you need the latest market and economic information, it's must-see TV. Its team of reporters is as well equipped to cover the financial industry as any organization on earth. But for long-term investors, CNBC and the other financial networks can be a source of needless anxiety and questionable guidance. Here are six good reasons to turn off the television when making investment decisions.

1) Time warp

CNBC is all about right now. With real-time market prices, live reports from the market floors, and a seemingly endless supply of "breaking news" reports, the network prides itself on living in the moment. This immediacy can be invaluable at times, but for making investment decisions with generational time horizons, right now is all wrong. The gloomy 9:15 AM report about new housing starts is no more relevant for a long-term investment decision than the upbeat 11:22 AM story on oil inventories.

The pervasive use of countdowns – for instance, the Fed's announcement on interest rates in 14 minutes and 10.77 seconds – fortifies the network's real-time, up to the second brand. But for investors who are looking ahead ten or twenty years, these short-term events – each hyped to the point of meriting its own on-screen digital countdown – create a false and needless sense of importance and urgency.

Think about it. Can you even remember what the biggest financial story was last week? Or yesterday? Or a year ago? Today's so-called breaking news that may move the markets by a percent or two just doesn't matter when investing for the long term.

2) Hometown obsession

We're all guilty of using the Dow Jones Industrial Average (DJIA) as measure for the entire market, but CNBC takes it to an extreme. With minute-by-minute updates on these 30 megacap stocks, as well as the S&P 500 and NASDAQ, CNBC coverage is skewed heavily toward the biggest and most visible US stocks. While large cap domestic stocks do belong in most investor portfolios, they are only one of many asset classes that should be represented. (See our May 2008 article *The Lost Decade*.) The relatively modest coverage of small caps, international and emerging markets creates a big blind spot. Likewise, coverage of bond markets is extremely skewed to U.S. issues, and at times it seems as though the U.S. dollar is the only currency on earth.

3) Cause and effect?

Dozens of times each day, CNBC anchors, reporters and guests authoritatively state that the market is moving up or down because of X, where X can be anything from



earnings reports, inflation scares, changes in interest rates, economic statistics, profit-taking or political news. The urge to find cause and effect must be a natural human instinct, because it happens all day long on CNBC. And, of course, it is not uncommon for two commentators, each with absolute conviction, to assign completely different causes to the same market move.

To its credit, CNBC is trying to demystify investing by explaining why markets move as they do. However, cause and effect are rarely so transparent. Markets move through the independent decisions of millions of investors and sophisticated black box (that is, intentionally non-transparent) trading programs. To say that the market is falling today because retail sales are down may sound plausible, but it grossly underestimates the true complexity of markets. Trying to use these alleged causal relationships to make investment decisions ignores far too many variables.

4) Personality flaws

Compared to the average American, CNBC staff commentators and guest pundits are better educated, more articulate, more successful and, for the most part, better looking. Many are highly experienced in specialized fields of investing. Some have made fortunes in the markets and achieved celebrity status in the process. More often than not, they are easy to believe. They make sense. They tell coherent stories about how the markets will move. They support their analysis and forecasts with reasonable, rational evidence. It is exceedingly easy to view their comments as smart guidance.

Unfortunately, these sages face the same constraint as the rest of us – the Random Walk. As Burton Malkiel's 1973 classic work described, security prices do not move in predictable, exploitable patterns. One cannot reliably predict which stocks will go up or down, or when. No matter how engaging and persuasive Jim Cramer may be, no matter how impressive his insights are, no matter how enthusiastic and entertaining he may be, he does not *know* what a stock will do over the next week, month, or year. Some of his predictions will be dead on; some will be dead wrong. It is easy to be persuaded, even convinced, by CNBC personalities, but we recommend that you remain highly skeptical at all times...and buy a mix of indexes rather than individual securities. (See our 2007 article, [*Random Walk Redux*](#))

5) Magnification by repetition

There's a lot of financial news to report, but not enough to fill a full broadcast day. The inevitable outcome, mirroring the same phenomenon on CNN, MSNBC and every other news channel, is incessant repetition of even marginally significant stories. When Intel misses earning estimates by a penny or two, the story may air a dozen times by noon.

What's the cumulative impact of endless repetition? Just ask the presidential candidates. Small wins become huge victories. Modest problems become cataclysms. Statements are analyzed and parsed to the molecular level. For investors who leave



CNBC on while trying to make decisions, the lack of proportion can distract, confound and confuse.

What's more, every event, regardless of magnitude, is seen as an opportunity to buy or sell. One of the most asked questions for guests goes like this: "How would you play XYZ?" where XYZ is a spike in commodities prices, a fired CEO, favorable earnings reports, a rebound in the dollar, or any other story. The key word in the question is "play." Any purchase or sale based on day-to-day events is speculative recreation. It may be fun, but it has no place in a serious, long-term portfolio.

6) What you won't see

Whether they call it this or not, most CNBC pundits advocate some degree of market timing – trying to stay a step ahead of the market to buy low or sell high, usually over a relatively short time horizon. We strongly discourage market timing as it flies in the face of market efficiency, a core belief at Osbon Capital Management. The premise of market efficiency is that at any given time prices fully reflect all available information, including whatever CNBC's engaging market commentator may have to say. The idea that one could "play" and win based on recommendations aired on financial networks (or in blogs, newsletters, or any other media) could be a dangerous and expensive one.

So, in our view, what's on CNBC offers little for the long-term investor. But what's *not* on is even more troublesome. Entire days pass with little or no discussion of what we feel are the most fundamental and important concepts for the construction of a sound, long-term investment portfolio, including:

- Asset allocation and diversification
- Expense control
- Tax efficiency
- Indexing
- Balancing risk and return

These are all critical considerations, but they don't mesh well with the normal CNBC fare. Market timing strategies like those championed by many on-air guests are likely to generate more transactions – meaning more transaction costs and more short-term (highly taxed) gains – than a diverse, buy-and-hold portfolio. And frequent trading means that one's asset allocation becomes an ever moving target. When that happens, the relationship between risk and return can easily fall out of balance.

The OCM advantage:
Using index investments, OCM adheres strictly, methodically, and transparently to the investment disciplines of diversification, asset allocation, risk management, and portfolio optimization. We avoid all market timing strategies.

Tune out

Pundit-driven market timing runs counter to everything we aspire to at Osbon Capital Management. We never attempt to outthink the market, or jump on an



urgent short-term opportunity. Instead, we start with disciplined asset allocation, striving to build portfolios that represent the diverse global market and allow our clients to participate in the cumulative return of many asset classes. We do this through a carefully vetted universe of exchange-traded funds, vehicles that we feel represent the best way to access returns while controlling expenses and tax exposure. No matter how long we watch CNBC, we just don't see much to guide our kind of investing.

Now don't get us wrong, CNBC can be great entertainment. The discussions of financial news are often fascinating. And the collective knowledge of the dozens of people who appear each day is phenomenal. But it *is* entertainment. Turn it on for amusement and exposure to interesting ideas. But when it comes time to create a long-term investment portfolio, we suggest you just turn off the set and walk away.

Steve Mott, Research Editor
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