# Don’t Believe the Hype

**John M. Gustafson – 31 March 2018**

*They claim that I'm a criminal*
*By now I wonder how*
*Some people never know*
*The enemy could be their friend, guardian*
*I'm not a hooligan*
*I rock the party and*
*Clear all the madness, I'm not a racist*
*Preach to teach to all*
*'Cause some they never had this*
*Number one, not born to run*
*About the gun*
*I wasn't licensed to have one*
*The minute they see me, fear me*
*I'm the epitome, a public enemy*
*Used, abused without clues*
*They even had it on the news*
*Don't believe the hype*
*-Public Enemy*

Just as the great Chuck D & Flava Flav instructed during my youth, it’s time to get back to their playbook when it comes to news media - both financial and political. Every single day the screaming media pushing for clicks and eyeballs advance a narrative as if taking a page directly from the Kardashians. Everything is opinion nowadays, there is no simple reporting of facts and everyone has to pick a team.

Longing for the days where you could simply page through a newspaper, listen to a report on the radio or hear facts of the situation related to you on television seems to be a foolish desire. The Russians aren’t the only ones massaging the narrative for their benefit; it seems to happen just as much in the business press as it does in the regular news discussing politics and other worldly events.

As this is truly the “new normal” we shall have to learn to deal with reality on reality’s terms, and practice good journalism ourselves - seeking out all sides to a story and not believing things without multiple, confirming facts.

Several years ago we were lamenting the emerging trend of financial news becoming entertainment rather than simply news. (seems sort of naïve and somewhat quaint now doesn’t it?) And coined the term *screaming media* to label folks like Jim Cramer, Larry Kudlow, etc. and their emotionally charged delivery. At this point, both can be seen as somewhat mild and factual compared to the rest of the circus currently posing as financial news.

The reason for the title of this note is that uncovering facts and interpreting what the media puts out about all issues is truly where the value lies. Of course the leader of bombastic pomposity resides on Pennsylvania Avenue but he is not solely responsible for our current situation, he’s merely an expert at fanning the flames of doubt to further confuse many important issues. Especially those that we truly care about in the investment world - the rest is just noise.

One critical issue that was in place long before the current administration is current American culture’s drive towards the mob mentality - attempting to completely silence those who make an error, misspeak, or may hit a temporary impasse. What I mean is, in the old days (defined by more than 10 years ago) if a company produced a product or service that fell out of favor, it was always perceived badly by the public - reflected by a slight drop in their stock price - but they would generally have the ability alter course to recover. In present society, minor hiccups can be as quickly and easily turned into total failure from public perception as mass fraud once was in the past.

The newly tricky part, when it comes to selecting investments for a portfolio, is that beyond failure of a product or service, mere words or personal actions of those in management at a company can cause significant financial damage. Warren Buffett likes to declare, “I buy businesses not stocks.” That is the reality and the ultimate arbiter of value, but we have to prepare ourselves for significant, nonfinancial downside risk in the near term while waiting to see the value realized. (Few have the patience of Mr. Buffet these days.)

To see the driving forces of technology and social media significantly altering investments in the short term, one has to look no further than stock of SnapChat. An innocuous tweet by a member of the aforementioned Kardashian Clan, lamenting the fact she no longer “snaps,” sent the stock into an almost 10% tailspin. (The resolution was that SNAP paid her a fee, very quickly and quietly, to make a counterbalancing claim only a day or two later. Business, politics and celebrity all collide at the point the check is cashed these days.) It is the very epitome of the difference between trading and investing.

A favorite old saw, expressed here numerous times over the years, and originally codified in Benjamin Graham’s book *Securities Analysis* many decades ago is worth repeating yet again: “In the short run, the market is like a voting machine – tallying up which firms are popular and unpopular. But in the long run, the market is like a weighing machine – assessing the substance of a company.” It is no coincidence that Mr. Buffett was a student of Mr. Graham prior to starting his firm.

So, how are we handling this returned to much more “normal” volatility, but enhanced in terms of speed and impact - and not triggered by solely financial catalysts? We’re listening to Chuck and Flav, and choosing to not always believe the hype. As with the explanation of our recent core portfolio rebalancing alterations, the analysis was done to navigate the investment waters based on what we truly view as a risk, where opportunity lies and what is simply noise that we must learn to endure.

The expectation is that the heightened volatility based on purely external triggers is certainly here to stay and emotion rather than logic will be a much stronger driver in the short term. By that we mean daily / weekly / monthly will easily see nausea–inducing drops that truly will not be logically explained in financial terms. It could be a personal vendetta playing out on Twitter, words from crazy dictators saber-rattling across the globe, or simply a talentless reality star with too much societal influence. Our job will continue to be assessing what might be an actual dangerous concern versus what might ultimately be the creation of a short-term opportunity that turns into a reward down the road.

Gazing towards the infected cesspool that is Washington D.C., I'm reminded of a quote by Donald Rumsfeld: "There are known knowns. These are the things we know that we know. There are known unknowns. That is to say, there are things that we know we don't know. But there are also unknown unknowns. The things we don't know we don't know. And if one looks throughout the history of our country and other free countries, it is the latter category that tends to be the difficult ones."

This is where we appear to find ourselves in 2018 with midterm elections only six or seven months away. The "known knowns" would certainly be the fact that everyone in the House of Representatives and roughly a third of the Senate will be on the ballot. Another would be that there are significant retirements on the GOP side of the ballot putting their majority in play.

A "known unknown" will be what role the President may play in a race with no incumbent. We saw in Pennsylvania that POTUS may not actually have coattails in the traditional sense – Trump is Trump and has no significant equals in local politics, and if the GOP chooses flawed candidates, they will lose. The more significant known unknown is likely to be the effect of an economy that continues to put up impressive numbers, aided by significant tax cuts (not real reform) that definitely fueled the fire.

Without the retirements, this economic situation would likely be insurmountable by the Democrats, but that is because our Republic and system of elections is strongly geared toward incumbency. It is likely why the Russians were planning their disruptive misinformation tactics during the 2016 election cycle years in advance. They knew, regardless of who was in the race, neither side had an incumbent and the electorate would be much more pliable. But I digress…

This leaves the category of "unknown unknowns." As Sec. Rumsfeld pointed out, this is where the real risk lies… During the 2008 credit crisis that saw (or was caused by) the failure of Bear Stearns, and more significantly Lehman Brothers, an academic coined the term, "Black Swan." The basic definition is that certain events are so rare and unexpected; the normal methods of analysis or historical precedent will not lead you to those conclusions before the event occurs.

Ever since we began our recovery from that abyss everyone discussing financial possibilities on the bearish side of the fence loves to use that phrase. However, whether you call it an unknown unknown, or a Black Swan it is something to keep on your radar but to also remember not to spend all of your time attempting to predict the implausible. The famed UBS floor trading-head, Art Cashen has always declared, "Be careful trying to predict and prepare for the end of the world - you can only be right once." (and at that point, it doesn't really matter)

I can also tell you this, there could be a significant fall on the financial markets horizon, but to expect it to occur for the same reasons the significant crashes of the past have befallen us (2008, 2000, 1987, 1972, or 1929) is a fool's errand. Market history does rhyme, but it very rarely repeats when it comes to crashes. Corrections, sure - disasters, no.

Circling back to the beginning, this is truly what is meant by, “don’t believe the hype.” There’s been a lot of noise leading up to, and ever since the 2016 election and very little of the doom that has been predicted (or predictions with the more positive spin) have actually come to pass. The speed at which we learn of current events and the ability to broadly color perception has certainly reached warp speed, but in my mind that makes thoughtful reflection and slowing reaction even more valuable. That will continue to be our strategy.

Thank you for your continued trust and ongoing business. Please reach out with any questions or needs. Cheers!