Second Quarter 2024

The Rest of the Story

Less attention paid to news and social media may pay off when it comes to investing. While reading a wide variety of news sources and trying to learn as much as you can about the economy and new trends is of value to every investor, making investment decisions based on the news media is questionable. By its nature, the news media is:

- **Late to the game**
  The news media by and large reports on events that have already happened. By the time you hear about investment activity, professional investors and those on the scene have already had time to react. And thanks to today's digital world, those reactions can be blazingly fast.
- **More easily manipulated than it admits.**
  The media's pursuit of sensational headlines, exciting visuals and controversy is well understood by those seeking media attention. Feeding the beast when you know its appetite is just a matter of staging.
- **Simplified for quick, mass consumption.**
  Market impacting events are a lot more complex than can be conveyed in a 30-second quote, or even an hour-long feature program. A simple explanation for the day's financial markets moves is just that, too simple to accurately explain the actions of billions of individual investors throughout the world.

For example, take two of the most widely touted economic indicators used to explain market moves - unemployment/employment and Gross Domestic Product (GDP).

Modest increases in employment and GDP were commonly cited as causes for first quarter market gains, as reasons for the Federal Reserve to lower interest rates, and to proclaim a soft economic landing a reality. Based on employment gains and GPD growth, analysts and market commentators were also quick to forecast a new bull market. But before you jump on the bandwagon, it helps to know "the rest of the story."

According to the U.S. Dept of Labor Statistics, full-time employment in January 2024 was below that reported in all the preceding 10 months. What did increase was part-time employment, at its highest reported level over the past 12 months in January 2024. The average work week is now about 34.1 hours. There's also something very messed up about the current employment situation. Participation by the civilian labor force of working age adults still lags pre-pandemic levels.

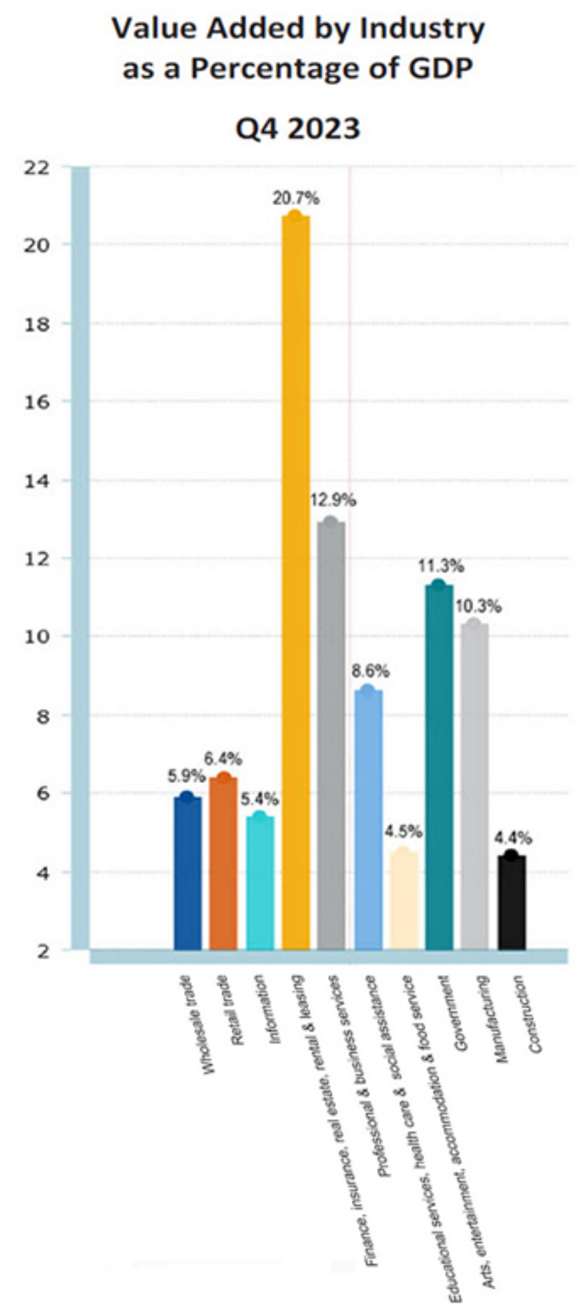
Source: U.S. Bureau of Labor Statistics

Why are gains in part-time jobs replacing full-time? Where are the missing workers? Is the story as positive as the news coverage? For a wealth of information on the nuances of the employment in the United States, visit https://www.bls.gov/cps/lfcharacteristics.htm.

According to the U.S. Bureau of Economic Analysis, real gross domestic product increased at an annual rate of 3.3% in the fourth quarter of 2023. While this was down from the third quarter GDP increase of 4.9%, it was still considered a positive in the news. But there is a lot more to GDP than a quarterly number. It is made up of the fates and fortunes of many industry segments. Which segments are growing, and which are falling can be much more important than the single number.

Investopedia defines the calculation of a country's GDP as *"encompassing all private and public consumption, government outlays, investments, additions to private inventories, paid-in construction costs, and the foreign balance of trade. Exports are added to the value and imports are subtracted. The GDP of a country tends to increase when the total value of goods and services that domestic producers sell to foreign countries exceeds the total value of foreign goods and services that domestic consumers buy."*

A disconcerting part of the U.S. GDP is that the largest industry value added at 20% is Finance, insurance, real estate and leasing, a sector very vulnerable to bubbles. Professional and business services fall second at 13% of GDP. The fourth largest industry at 11% of GDP in Q3 2023 is Government – encompassing local, state and federal governments. The government sector was the greatest contributor to the 3.3% gain in GDP in the 4th quarter, not necessarily a positive for the economy.



As for inflation, government releases and the media reports focus on “core” inflation, which omits food and energy, the two costs everyone faces daily.3   Getting letters from one’s utility company warning of increased power bills is generally not a good sign of where energy prices have gone, to say nothing of the cost of eating out.

The efficient market hypothesis (EMH) states that share prices reflect all available information and outperforming the market is impossible without purchasing riskier investments. But share prices also reflect the emotional state of investors. It is very true that financial markets are incredibly accurate reflections of the overall emotional state and knowledge base of investors at that moment.

Which brings us to the importance of not following the latest newscast, tweet or market prognosticator’s outlook but the market trend. We will never know all the factors and decisions behind the daily action of individual stocks and indices, but we can watch the trend for signals that a change in direction is underway and respond accordingly. Not every buy or sell move will be correct, but reducing one’s participation in declining price trends changes the investment game. Investing always carries risk. But if we can reduce the risk of losing value to downturns, we have the leverage to potentially outperform in rising markets.

The information we need to follow - market trend - doesn't come from news or social media, nor from corporate and government announcements, but from the market itself.

References:

1 https://www.bls.gov/charts/employment-situation/civilian-labor-force-participation-rate.htm
2 https://www.bea.gov/itable/gdp-by-industry
3 https://www.bls.gov/cps/lfcharacteristics.htm

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