

# The Holland Portfolios

**Investor alert: Watching too much TV can hurt more than your eyes.**

“The opening bell is next! But first, a brief word from our sponsors.”

Thus begins the second-by-second countdown to another heart-pounding day on Wall Street, the greatest financial party in the world... with soundtrack-segues courtesy of Jimi Hendrix and the Rolling Stones. *Are you in?*

“The new fourth quarter GDP estimate is 2.2%... *wow*. Stocks rally on Euro debt hopes! Averages up for fourth day in five! *BREAKING NEWS*... all 30 Dow stocks on the rise!”

The above is not a Comedy Central spoof. We have not manufactured these quotes for hilarious effect. Even the breathless “wow” and exclamation points are real. These are actual on-air statements or headlines from two minutes of a typical broadcast on one typical CNBC news day.

This is financial journalism? At horse tracks they call it touting.

Wait. This news just in: “At this hour the Dow is posting the best one-day gain since... August 23<sup>rd</sup> (two months ago). *Wow*.” And it’s not even 10 o’clock in the morning. No perspective. No balance. The gullible investor might be forgiven for calling his broker that very minute to buy, buy, get in on the biggest move since... well, August 23<sup>rd</sup>. Is it any wonder that critics call this electronic heroin, financial pornography?

**Television lives in the moment – right now. Successful *investing*, as opposed to speculating or gambling, is by definition a process that lives in the long term.**



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The professionals, of course, recognize a TV show when they see one. The flashing graphics. The urgent inflections in “reporters” voices. “Wow... up next, what stocks should *you* buy and sell ahead of the earnings season that begins tomorrow.” Or “what does it *MEAN* that people are shorting Alcoa?” The professionals know that whichever way the market turns... an hour from now, or this afternoon... for celebrity analysts and stock-pickers the same dramatic tools come into play. ***It’s all show biz.***

What’s going on here? How did we come to this? How did the floor of the New York Stock Exchange become the set of a cynical Reality TV program?

From the beginning, TV was a two-edged technology. Psychologists noted the addictive power of both Walter Cronkite and *Hee Haw*. Television could entertain and inform. But study after study proved it could also disable a viewer’s critical thinking, which is why advertisers seized on the medium with both hands. Something about the audio-visual presence of TV, projected directly into people’s living rooms, generated “undeserved trust” in even the most sophisticated viewers. Seeing was believing.

For investors, the first evidence of TV’s Orwellian power appeared decades ago, back in the quaint days when television personalities still spoke in complete sentences and good manners prevailed – before the name-calling, chair-throwing antics of Jim Cramer.

Think of this as a cautionary fable.

In the early 1970s, a then-fledgling PBS launched the first program of any kind devoted solely to financial markets: *Wall Street Week*. It was hosted each Friday night by Louis Rukeyser, the kind of erudite patrician gentleman you’d expect to see in a smoking jacket at an exclusive club... reading a stock ticker. Rukeyser himself had never managed a stock portfolio. He was a financial columnist: 13 years with the *Baltimore Sun* and a stint with ABC news.



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Befitting its public television aegis and the times, WSW was low-key. The set consisted of bookshelf-lined walls, a capacious conference table, overstuffed leather chairs – a CEO’s office, say. Rukeyser and his guests (star analysts, “name” investors, titans of industry and financial services) sat around calmly discussing the week’s activity on Wall Street: not the last hour’s frantic trading, the entire week, emerging trends. There was no ranting and raving. All that was missing were the brandy snifters and cigars.

So far, so good. But at the end of every broadcast, Rukeyser asked his esteemed guests for a friendly stock pick or two: specific company names. Thus was born the “Rukeyser Effect.”

As the show’s popularity began to soar – for many years Rukeyser had no competition whatsoever – traders noticed that those Friday-night stock picks spiked as soon as the markets opened on Monday mornings. The phenomenon quickly became self-fulfilling. Behind the scenes, companies vied to be mentioned on WSW. And millions of investors stayed home on Friday nights to watch: paper and pen in hand. “Educational” television never had it so good.

But then those darned academics – who had nothing better to do – started snooping around.

A detailed study published in the crash year of 1987 found that WSW stock recommendations tended to rise in price and trading volume in the days *before* the show aired on Friday night, peaked on the following Monday morning... and tended to underperform the market average in the year after. **In other words, viewers bought at the high and held on for a bumpy desultory ride.** Rukeyser and his guests strongly disputed this data (and its implications), but offered no independent “audit” of their stock picks.

Then another study in the *Review of Financial Economics* confirmed the dark side of the Rukeyser Effect. Authors found that while some WSW picks inevitably fared better than others, i.e., a coin flip, there was “little correlation between the 6-month performance of (an individual expert’s) recommendation and the abnormal (trading) volume at the date the recommendation was made.” Statistically it was impossible to differentiate the “more insightful” picks from “less insightful” ones. (It still is, of course.)



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**Or as one commentator put it, “It is mathematically impossible for the 30 million viewers of that TV show to beat the market... since they ARE the market.”**

Something else troubled observers: in theory, WSW was an educational program to enlighten investors via Rukeyser’s colorful commentary and his candid chats with market-makers (whom viewers would otherwise have no access to). But in fact the show depended on underwriting from “sponsors” with a strong financial stake in commissions and transaction fees from increased market activity: brokerage firms and investment banks. WSW was, in effect, a half-hour infomercial.

Considering the show’s inherent conflict of interests, one might imagine that the above revelations gave investors pause. Some, yes. But others, no. Rukeyser’s near-hypnotic personal appeal and the continuing success of WSW spawned imitators. Eventually, as cable television evolved, the Financial News Network morphed into what we know as CNBC (the initials stand for Consumer News and Business Channel).

The rest, as they say, is financial talking heads. Bloomberg, Fox, et al.

*Wall Street Week* was the granddaddy of today’s obsessive 24/7 cable news cycle. We now have continuous stock-ticker crawls and real-time remote feeds to create the illusion that laptop viewers are constantly “in touch with the Street and the world.” Today we have WSW on speed – minute by micro-minute updates, the trees instead of a forest. In terms of content, really not much has changed. The “talent” – star analysts and CEOs – still pronounce and opine with no accountability. Cramer’s flamboyant show is prime-time Reality TV in which the “the most famous stock picker in history” grimaces, extols, even sobs. Like those expert guests on WSW, he has never produced an independent audit of his track record.



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Viewers apparently forget that Cramer, on March 11, 2008, loudly advised them to *hold* Bear Stearns stock at \$62 a share – less than 24 hours before BS collapsed. Or that he strongly recommended Wachovia, which lost 90% in the next two weeks. Just two among many reasons why Cramer and his ilk have been characterized as “walking, talking hazard(s) to the individual investor.”

Cramer did say one thing that’s worth repeating.

“A show that spends all its time comparing valuation of the Swiss franc to the yen is a show that gets canceled,” Cramer told the New York Times. And we’re sure he’d agree that a boring guest on today’s hyper financial talk-media – for example, a portfolio advisor who recommends that investors rely on a scientifically balanced approach for stable, long term performance – is a guest who would not be invited back. Where’s the drama in that?

Bells and whistles are what keep you on the air. A well-measured perspective is what keeps you grounded... and successful over the long term.

Let’s be clear: TV is a towering achievement of human ingenuity. It’s also a technology that “increases our ability to lie to ourselves... and forget it is a lie.” Please consider this mundane unalterable fact:

**The latest Dalbar study shows the S & P 500 returned 9.1% over the last 20 years – between January, 1991, and December, 2010. For the same period, taking individual trading behavior in account, the average investor got 3.8%.**



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That is what chasing tips, acting on market mood swings and piling up transaction fees can do to a portfolio. **Keep in mind: for every seller there is a buyer (who thinks he's getting good value). And vice versa. In the public markets, prices inevitably are "fair" and cannot be consistently exploited for profit. Period.** Nobel laureates know this. That's why you don't see them doing two-minute sound bites on CNBC, or wearing sombreros and slamming buy-buttons on TV shows.

Owing to FCC rules, "hosts" such as Jim Cramer are forbidden from acting on their own advice for a period of five days after air time. TV viewers might consider imposing a similar restraint on themselves.

Have fun watching Deal Or No Deal. Pop some popcorn. But remember, it's only TV. Free stock picks are "fairly priced" too, and worth what you pay.

