

July 10, 2018

Context over Meaning

"I do not fear truth. I welcome it. But I wish all of my facts to be in their proper context."

-Gordon B. Hinckley

We have been writing this commentary for over 40 years. The purpose of these writings, as meandering as they often may become, has always been to provide you context. Context makes life and news interesting. Context is how we landmark one event to another. Context is, ultimately, background noise. It is important to understand that "context" differs from "meaning".

It is interesting *context* to observe market returns in light of a recent GDP numbers. However, it's when someone ascribes *meaning* to those numbers and establishes some imperative "Markets did *this* because GDP did *that*" this is when we can lose the forest through the trees. When you attach meaning, you begin to build a narrative for how things are supposed to work. That narrative lays the foundation for a worldview. This worldview fuels the confidence necessary to make forecasts. These forecasts are how you lose a lot of money with investments.

Trade wars = poor market performance, right?



CNBC @CNBC

Follow

US futures point to a higher open amid elevated trade war anxiety

US futures point to a higher open amid elevated trade war anxiety
U.S. stock index futures pointed to a higher open Tuesday morning, despite heightened fears of a bitter trade dispute between the U.S. and major economies ar...
cnbc.com

5:29 AM - 3 Jul 2018

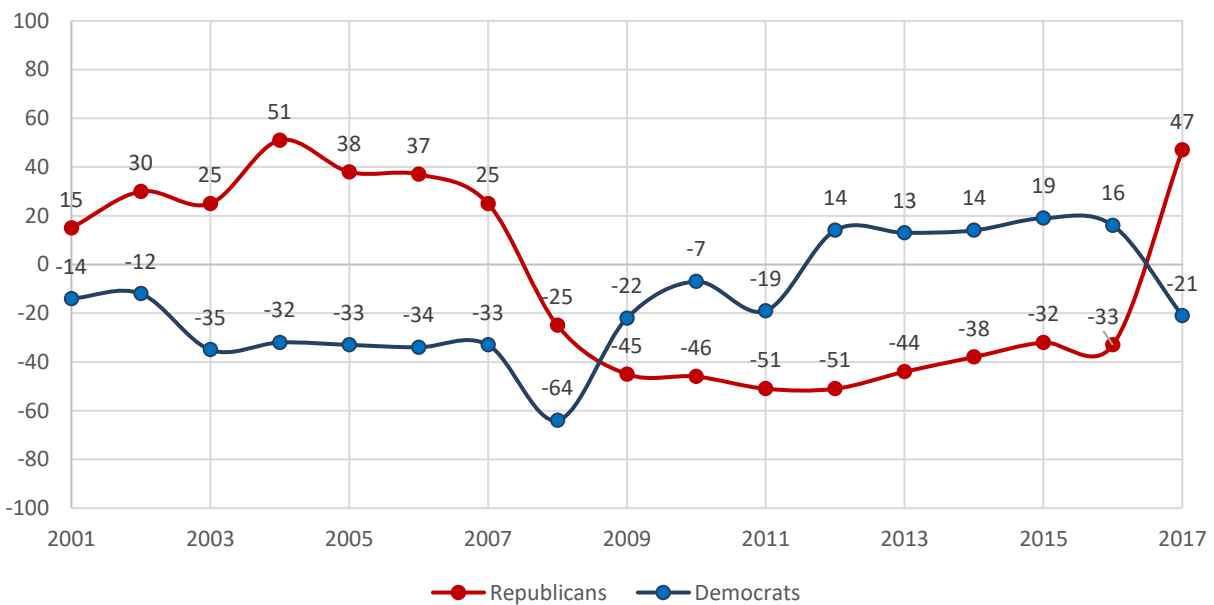
Markets take into account billions of variables to form agreed upon prices for companies. GDP, interest rates, inflation, trade wars, job growth, wage growth, wars, lack of wars, heating days in winter, birth rates, immigration, consumer sentiment, holiday retail sales, automation, home prices, corporate buybacks, banking regulation, growth in China, pension deficits, millennials shopping online, Elon Musk's

tweets, marijuana legalization. Which one matters? All of them? None of them? Some of them? Some of them sometimes, then others other times?

Don't forget that the market is made up of individual companies. How much do interest rates affect Apple? Does it matter more or less than last quarter's iPhone sales number? How about Boeing - Are inflation expectations driving their returns or are airplane manufacturing costs?

Markets move because *billions* of market participants are making decisions about what to buy and sell for *billions* of different reasons every day. The disaffected progressive voter might sell their stock for fears of a crash brought on by the current Administration. However, on the other side of that very trade could be a jubilant conservative buoyed by their renewed faith in the economy under Trump. An annual study by Gallup tracks consumer confidence in the economy, by political party. Without fail, the party out of power generally has an unfavorable view of the economy relative to the party in power.

U.S. Net Economic Confidence



Source: Gallup. 2001-2007 average based on Gallup Poll Social Series surveys. 2008-2017 average based on Gallup Daily tracking.

At times we share historical market or economic information in the hopes that this insight reveals to you that markets decline, and surge, and correct, and recover. We are neither euphoric, nor depressed, over the stock market's movement. Markets are a tool that we use to accomplish our financial goals. When we see investors "fail" in the markets it's often because of behavioral reasons - fear, overconfidence, betting too big on a concentrated position. We don't get mad at the hammer when a construction project doesn't turn out quite right.

The News

Those of us over fifty used to be believers that, as the New York Times banner read, “All the news that’s fit to print.” That slogan originated in 1896 and for the next six decades we read, in increasing numbers, the news.

Big city newspaper readership has plummeted. Statistics from Pew Research indicate that 71% of adults were regular newspaper readers in 1965. Today that figure is less than 30%. For those under age fifty, newspapers, television, and radio news is about as meaningful as the telegraph. Ben Hecht, the Academy Award winning screen writer, said, “Trying to determine what is going on in the world by reading newspapers is like trying to tell time by watching the second hand of a clock.” Today, news comes at us quickly and from every angle. We have access to up-to-the-minute developments, literally at our fingertips, 24 hours a day.

Today, there’s no quality control and the race-to-publish trumps the archaic belief in fact-checking a story. There is no longer a dam in place to hold back the news that might be “unfit” to print. Every ill-formed opinion, prediction, development, and conversation makes its way to our eyes and ears. We are blitzed with news that makes us feel one way or another about the state of our world. Who should we listen to? What should we believe?

To bring things back around to investments, some people are going to take what they hear from the news and decide: “I know what this means, I know how to *play* this.” Some of these folks will be correct with their guesses and some will be wrong. No different from how some people will make or lose a whole lot of money playing Blackjack. The only constant is that they are increasing the risk that they don’t accomplish their financial goals.

Other folks will consume the news but be unable to decipher the tea leaves and will choose to take a seat on the sidelines. Well, inflation and an evaporating culture of guaranteed retirement benefits, such as pensions and social security, make not participating just as risky of a proposition.

Then there are the people that take a strategic approach to their portfolio. An approach that doesn’t rely on the dribble they see on television or Twitter each day. These investors have a plan that includes diversification, risk-appropriate asset positioning, reasonable expectations, and a certain degree of apathy for the good and bad day-to-day movements of their assets. These are our clients, by and large. We have been at this for 40 years, and the individuals and families we’ve walked beside that have achieved their financial goals have been these types of people.

We hope this is a timely comment about news as we are headed into an election and political quagmire unlike anything any of us have ever witnessed. Between now and Tuesday, November 6, 2018 we can expect to be bombarded from all sides with real news, fake news, planted news, leaked news, biased news, and just plain lies. Some of these reports may send shockwaves to the stock market. Don’t be alarmed - Don’t watch the second hand.

Have a wonderful summer,

John, Derek, Jon, Stacie, and Kadeem

Investment advisory services offered through Ferguson-Johnson Wealth Management, a registered investment adviser.

This newsletter contains general information that may not be suitable for everyone. The information contained herein should not be construed as personalized investment advice. Past performance is no guarantee of future results. There is no guarantee that the views and opinions expressed in this newsletter will come to pass. Investing in the stock market involves gains and losses and may not be suitable for all investors. Information presented herein is subject to change without notice and should not be considered as a solicitation to buy or sell any security.

Derek Johnson is an Investment Advisory Representative of Ferguson-Johnson Wealth Management, a values-based investment management firm located in Maryland. Derek Johnson can be reached at (301)670-0994 or djohnson@mymoneymanager.com.