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Financial Advisors, Inc.

Short-Term Nonsense

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Most of us would probably regard the most recent corporate earnings report as bad news: earnings in aggregate were below expectations, and nearly a quarter of companies missed the estimates that they, themselves, were largely responsible for signaling. Last May, third quarter earnings for companies in the S&P 500 were forecast to rise by 9.7%. The most recent expected gain was dropped to 2.5%.

So that should mean that stock prices went down, right? Actually, the stock market responded with a significant rally last week, which offers an important lesson about the news that most of us consume from the financial press. The lesson is that all those the corporate earnings announcements, shifts in interest rates, inflation and jobs data are terrible predictors of short-term market performance.

Come again? All of this financial data offers us clues to the long-term health of the economy, of corporations overall, of individual corporations, and whether we are likely to stay employed and earn a higher income in the future. Good news is good for the long-term value of stocks; bad news means that companies are growing more valuable at a slower rate than they were before.

But in the short term, there is a much more powerful influence over the behavior of the market—something that investment experts variously call ‘market sentiment’ or ‘animal spirits.’ These are marketspeak for: “We don’t know what the short-term traders are thinking at any given moment, or how they are going to digest the data that they, like us, are seeing on the screen.” Whatever they’re thinking and feeling, however they are interpreting the data, may or may not be related, in any logical way, to the data itself.

If the community of short-term quick-twitch traders see higher earnings reports, they might think that this is an ideal time to sell and collect their profits. Or they might conclude that it’s time to get on the roller coaster on the way up. They are all watching each other—which means the minute-by-minute shifts in the tickers—and reacting to what they see others doing, and this herd mentality is not in any way predictable from whatever news is coming out.

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The most productive way to invest for the long term is to turn off the news and stop doing what is really difficult for all of us: trying to figure out what today's news means for tomorrow's (or next week's) markets.

Sources:

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https://www.advisorperspectives.com/articles/2022/10/30/bad-s-p-500-earnings-are-playing-right-into-the-feds-hands

If you have any questions about this article or want to discuss your family finances, investment portfolio, or financial planning advice, please call on me anytime at my number (215) 325-1595 or you can click here to schedule a meeting.

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