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Investors Deserve a Mea Culpa From Financial Journalists

When will financial journalists draw a line between entertainment and information?

According to a new book, people subconsciously shut off the part of their brain when watching some financial news shows.

By Daniel Solin | Aug. 12, 2014 | 9:51 a.m. EDT | + More

The book, "Clash of the Financial Pundits," co-authored by Jeff Macke and Joshua M. Brown, is a fascinating insight into the real agenda of many financial news outlets. Their mandate is to entertain, even when doing so means giving investment advice that is harmful to investors. Macke was a financial journalist at CNBC's "Fast Money" and now is a host of "Breakout" on Yahoo Finance. Brown is a frequent contributor to CNBC and writes a blog at The Reformed Broker. The index investing site, Canadian Couch Potato, published a couple of interesting excerpts from the book, such as:

"People have been shown to prefer commentators with unwavering confidence over those who are more reserved and have actually gotten things right. The research shows that in the presence of someone speaking emphatically about events to come, people subconsciously shut off the part of their brain that reminds them this cannot actually be done."

This quote, attributed to Jim Cramer, is also bothersome:

“I decided I’ve got to have a little more entertainment value because I don’t want to get cancelled. I’m a commercial endeavor. It’s like the professors who say, ‘Jim you should come out every day and night and just say buy index ETFs.’ Well, you know, that’s not a show and people obviously want a show.”

I am one of the commentators who went on CNBC and made it very clear I had no idea where the market is headed. I advised viewers to place more confidence in John Bogle (the founder of Vanguard and a strong proponent of index funds) and less confidence in Cramer, on the show, "Power Lunch" in 2009. Cramer stormed onto the set during my appearance and engaged in a rant against index funds. I was never invited back.

I applaud Macke and Brown for exposing the charade of what passes for financial news. But I remain troubled that so many in the media believe they are justified in providing misinformation that could harm investors because of their overriding mandate to entertain and generate ratings, as well as advertising revenues.

Some of Macke’s programs continue to lack sound financial support. On August 8, his “Breakout” program featured a guest who suggested that now is a good time to buy stocks. However, there is a lot of data that shows efforts at timing the market have met with little success. The paper, "Market Timing Ability and Volatility Implied in Investment Newsletters’ Asset Allocation Recommendations" by John R. Graham and Campbell R. Harvey is one classic example of leading research on the topic.

Some programs are helpful to investors, providing useful, actionable information. How are investors supposed to know the difference? I don’t agree with the idea that providing investors with sound investing advice is “not a show.” There are many topics of keen interest to investors that would help them manage their money in a responsible and intelligent way. Here are some examples:

Carl Richards, a colleague, writes a regular blog for The New York Times. His most recent columns discussed the importance of understanding math in order to make intelligent decisions and how trying to find the "best" investment can actually stop you from meeting your real financial goals.

Larry Swedroe recently referenced an "S&P Indices Versus Active Funds" scorecard, looking at 1-year, 3-year and 5-year performance ending ending in Dec. 30, 2013. It showed that the majority of these actively managed funds invested in European equities underperformed their benchmarks.

My colleagues Tim Maurer and Jared Kizer regularly write posts that educate and inform investors. I have been writing books and blogs since 2006. My recent posts include advice on the most common mistakes made by investors, why you shouldn’t rely on predictions about “the coming correction” and many other subjects.

If anything, the interest in articles setting forth sound investment education has increased since 2008, as investors began asking the question, “If those in the financial media who claim to be able to predict the future couldn’t predict the greatest financial downturn since the Great Depression and then the subsequent recovery, why should I rely on them?”

It’s not enough to expose the financial media for the charade much of it has become. It’s time responsible financial journalists clearly distinguished information from entertainment.

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