StraightTalk
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Negative Media Misleads Again

There was a time when I still believed that the media reported facts, albeit with a slant. It's a given that in the era of cable news outlets, there is a political, partisan tilt to each channel's reporting - but that is not the slant I am speaking of. The tone of the facts reported by every news source are almost always slanted negative. The century old newsprint adage comes to mind, "If it bleeds, it leads" – the negative bias is undeniable.

However, today, I am waking up to the realization that mainstream, supposedly reliable news sources across our country now do more than frame stories in a negative light - they are lying to you.

Nowhere is this more evident than the last three weeks of reporting on the circus in Washington, DC around the parliamentary requirement to vote on increasing the debt limit. Students of history will know that the brilliant men who founded this great country insisted that a President must bring any request to issue debt before Congress to be voted upon – thus insuring that in the new fledgling country, a President did not have the power of a King or an Emperor. It was a brilliant check on the power of any president to issue debt to pay for legislative wish lists, and it remained a routine occurrence up until America entered into World War I. At that point, the number of debt requests became too frequent for Congress to handle, so they simply created a borrowing limit, only requiring a vote when total borrowing exceeded said limit. Thus, the debt ceiling was born, and it has been increased every single time since then, without exception.

Unfortunately, this routine vote is now a political bargaining chip for the party that is out of power. The Democrats refused to vote to increase it in 2003, 2004 and 2006, forcing Republicans to "go it alone." The Republicans returned the favor in 2011 - the infamous "Fiscal Cliff" – and are doing it again as I write this. (These are just the instances that I can remember - I am sure there have been others.)

For members of Congress to play chicken with this is beyond foolish – it could have some serious repercussions, not the least of which is it makes our country look to the rest of the world as if it is run by a group of five year olds arguing on the playground. However, one of those repercussions is not, *and I repeat not*, that America will default on our debt. This headline has been in every news source I can google, ranging from network credible to internet dubious, and everything in between. Folks, this is an outright lie.

The interest on our national debt is the first item paid before any other spending. For headlines (and news reports) to imply that not raising the debt ceiling would mean those payments could not be met belies the facts. Those facts are simple, and twofold. The first fact is that, according to the Treasury Department, the interest on our national debt is projected to be $378 billion this year. The second fact is that tax revenues collected last year were $3.42 trillion, and are expected to be higher this year. You do not need a scientific calculator to see that there is roughly ten times coverage of money coming in to cover those interest payments, and thus prevent a default.

The reality – as you already know, and the market is displaying, is that the debt ceiling will be increased, and all of this will have been wasted time and effort. However, what is not wasted on me is the mental anguish and needless emotional worry for investors about a sovereign default, which has been repeatedly perpetrated by the news media. Shame on them.

Of course, this is only an issue if you rely on the news media as your primary source for reliable investment information – which, to their detriment, too many investors do. Remember, when we discuss your portfolios and plans, or your lifetime dreams and legacy wishes, we deal in facts – not negative sensationalism, partial truths lacking context, or outright factual lies. We all deserve the truth, which is derived from facts.

Setting aside the incorrectly reported "facts" about the debt ceiling – the sheer volume of news outlets today means that on any given day, a different "expert" is being interviewed, opining on the future, or tossing out a scary prediction. These often ridiculous, attention-grabbing headlines are an unfortunate reality of life in the cable and internet age. One such ridiculous headline in July caught my eye, which ironically ran in one of the least sensational of sources, Bloomberg News. The author of the article was the Chairman and Chief Investment Officer of Guggenheim Investments, and the headline read *"U.S. Stocks Could Plunge 15% in a Very Rough Autumn."* Wow, what a catchy headline! The article went on to detail that September and October were likely to be very rough, calling for a market pullback of 15% or more.

Predicting a stock market pullback of 15% in a year is like predicting that the leaves will fall off trees sometime between Labor Day and Christmas. Both of these are an expected annual event, and none of us should be surprised when they occur. The facts are what they are – that the cost of the excess return over inflation that stocks have historically provided is enduring periodic price declines, which over the last 200 years, have thus far proven to be temporary.

Shortly after reading the comical prediction of a market decline of precisely the average annual amount, my faith in the ability of facts to ground us in reality was restored. A headline from J.P. Morgan read, *"Since 1980, despite average intra-year declines of 14.3%, annual returns have been positive in 31 of 41 years."* Finally, the truth! Yes, there will be a market correction (an average of 14%) at some point, but that is not the headline we should focus on - the return data is far more important.

When there is no obvious attention grabbing negative news story, the media typically reverts to a tried and true theme – a stock market bubble. This favorite news headline is trotted out with alarming frequency, in order to keep everyone's fear of loss as high as possible. Ben Carlson posted a fantastic article in September, in which he tracks the last 12 years of failed bubble predictions. He details those headlines, and discusses the fundamentals of why true bubbles are actually quite rare. All of this is lost on the media, who sure as I write this, will soon trot out an "expert" to explain, once again, why we are in a stock market bubble. https://awealthofcommonsense.com/2021/09/why-financial-manias-persist/

Looking at only one variable in an equation or one statistical measure in a vacuum can easily distort the truth, and lead otherwise rational people to an incorrect conclusion. A common statistic used as a basis for calling the market "a bubble" is the price-to-earnings ratio, or P/E multiple. This is an essential valuation tool, as it clearly details the current per share price for each dollar in earnings. When the P/E grows high compared to the historical average – the headlines about a bubble and an imminent market crash become numerous. (What is always lost on the fear-mongering crowd is that there are two ways to correct an unusually high P/E – the price (P) can come down, or the earnings (E) can go up. But I digress….)

However, the use of this statistical tool, as with any statistic, requires other inputs to maintain relativity. Additionally, in the case of today's P/E, the most important other measure to ensure a relative relationship is interest rates. If the historic return opportunity in the great companies of America and the world is 10%, and the risk-free rate at the bank is 7% - you might be very cost conscious about how much the price per share is for a dollar of earnings. However, if that risk-free rate at the bank is 0.5%, like today, you might be willing to pay substantially more for that earnings opportunity. So, it becomes quite intuitive that in a low interest rate environment, the price compared to earnings would be higher. According to The Wall Street Journal, one year ago, the P/E of our 500 largest companies was 27.7%. Today, it is 23.3%, and the forward 12-month estimate is 18.5%. That does not look like a bubble to me – instead, it looks like the best decision makers in the best run companies found a way to increase their earnings coming out of a global pandemic. *Which is exactly why we own the great companies* – for their historic ability to assess the landscape, and make prudent decisions with capital to navigate that landscape effectively, and continue growing. Feel free to call me when that is the headline – until then, stop watching television news!

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