Negative Superlatives and the Market's Drop

Don't let attention-grabbing headlines steer your long-term financial plan

Almost any global happening can spur you to sell investment positions or put off investing new dollars.

And the recent headlines that scream "Stock Markets Jolted and Suffer 2nd Worst Drop in 2019" or "The Recession is Coming, the Recession is Coming" or "The Yield Curve Inverted, The Yield Curve Inverted" absolutely affect our emotions.

But remember: the headlines are just to sell newspapers (or digital ads). You have to keep a level head when the market goes up and when it goes down. Because it's going to do both.

While we all remain concerned about a trade war with China, and Brexit and slowing manufacturing data out of Europe and what the Fed is going to do next, we haven't recently suffered any negative event to send the stock market into a tailspin. The latest news is just that – the latest news.

Headlines are Designed to Sell the News

Domestic and global social unrest can influence market sentiment. Political news stories can be shocking and unfortunate but are not usually detrimental to investment markets.

Natural disasters such as hurricanes, earthquakes blizzards or tornadoes sadly damage a big geographical area, but only nominally influence Wall Street's direction.

Consider this point made by the Guardian:

"Plane crashes always make the news, but car crashes, which kill far more people, almost never do. Not surprisingly, many people have a fear of flying, but almost no one has a fear of driving. People rank tornadoes (which kill about 50 Americans a year) as a more common cause of death than asthma (which kills more than 4,000 Americans a year), presumably because tornadoes make for better television."

Outbrain released a study that confirmed what we all really knew: "negative superlatives" work in the news business. The words "Never," "Bad" or "Worst" are so much better for ad-click-through rates, circulation and ratings compared to the gentler, happier words like "Always" and "Best."

In fact, Outbrain reported that "negative superlatives" work 30% better at getting your attention than positive ones. The average click-through rate on headlines with negative superlatives was a staggering 63% higher than that of their positive counterparts.

Pay Attention to the Numbers

The U.S. economy offers little that's particularly frightening. Yes, volatility has increased, but consider a few important macro-events:

- Unemployment is near its 50-year record low;
- Corporate earnings are healthy;

- GDP is healthily above 2%;
- Interest rates are very low.

Year-to-Date Performance

In the stock market itself, the Standard & Poor's 500 still boasts a positive return of more than 13% YTD – and this was after its one-day slide down of 2.93%.

And guess what? Of the 11 S&P 500 sectors, only one is in negative territory YTD and that's the Energy sector, which is down 1.84% for the year. Any guess as to which sector led the one-day 2.93% decline in the S&P 500? If you guessed Energy, you'd be right.

Your Takeaways

Here are some things to remember, no matter the direction of the stock market or the preponderance of negative superlatives:

- The stock market is not always such a smooth ride.
- Any investor can fall for recency bias, the bad habit of assuming that recent financial trends will continue as well.
- Trends are dangerous illusions when it comes to investing.
- Don't let this negative-superlative-atmosphere make you more susceptible to freak out when the inevitable and brief instability comes along.
- Remind yourself that you invest for long-term results and that volatility is as short-term as it is headline-grabbing.

As Carl Richards points out in his book The One-Page Financial Plan, no skydiver tries to figure out how a parachute works after jumping out of a plane.

Sooner or later, bad news will rock the market.

Restrain your panic, and your long-term investment results are likely to be anything but bad news.