

How can individual investors trust, when so much investment information is rubbish?

Category : Scientific Investment Best Practices Articles

Published by [The Skilled Investor](#) on Jul/9/2005

How can individual investors trust, when so much information about investing is rubbish?

Summary: Investing evokes a very wide variety of thoughts, emotions, and motivations. Conversations, the media, and popular literature contain significant unverified, biased, false, and sometimes simply ridiculous investment information. When such information is superficially plausible, it seems especially easy for erroneous beliefs to perpetuate and become part of widespread investment folklore. The Skilled Investor dubs such supposed investment information as "rubbish." The term "rubbish" will be used in The Skilled Investor to denote any belief or theory that is contrary to the findings of scientific investment literature. Rubbish* about investing may consist of mistaken beliefs, well-intentioned but false assertions, and conscious falsehoods. Using this blanket term "rubbish" permits us to avoid any concern about the origins and motivations behind false statements. Investment rubbish just needs to be clearly identified, because it can be very harmful to your pocketbook. Certain market participants profit from erroneous beliefs, and their promotional energies perpetuate bad investment ideas. For example, many individual investors believe that they have a good chance to consistently "beat-the-market." Such beliefs are played upon and are reinforced by others who stand to profit. Purchasing individual stocks and bonds is heavily promoted by the brokerage industry, despite the fact that this leads to poorly diversified portfolios with higher volatility and lower returns. (See: [What is the cost to individual investors of sub-optimal diversification?](#)) It may seem odd to have to point out the rubbish associated with investing and the investment industry, but it exists and is problematic for anyone who is trying to make rational investment decisions. The good news is that some people tend to have relatively good sensors for rubbish in general. The bad news is that, while they may sense that the information they get contains a lot of rubbish, they may have a hard time separating the truth from the rubbish. Individual investors experience a tension between trust and suspicion, as they deal with the financial services industry. This tension reveals itself in public opinion surveys. The Securities Industry Association does an annual investor survey of attitudes toward the industry. Its 2004 survey summary said: "The majority of investors say the industry being motivated by greed is a big problem (69%). This is up significantly from a few years ago — only 42% of investors shared this sentiment in 1999." 1 Industry greed is not necessarily a bad thing. Greed needs to operate in the securities markets for competition to yield efficient asset prices. The problem, however, lies in conflicts of interest, which can give rise to rubbish and foster investor distrust. At the same time that the industry sells its products and services and adds significantly to investors costs, it also tells individual investors that it is acting as their advisor and is presumably giving good advice. The 2004 SIA survey also indicated, "84% think the industry should be doing more to educate investors. This sentiment has been high since 1995." If you also have some of these feelings about investing, perhaps it is good to know that you are not alone. However, it does seem a bit naïve that 69% of investors believe the industry is motivated by greed, while 84% think the same industry should be doing more to educate them. Apparently, most investors think the fox is in the henhouse. However, most of these same investors

seem to think that the fox should be giving lessons on how to secure the henhouse from the foxes. The net result of this tension between trust and suspicion is evidenced by another survey. In the 2002 Golin/Harris Trust Survey of 700 randomly selected Americans, respondents were asked about their trust in various companies and industries.² Golin/Harris developed an industry trust index on a scale of +100 to -100. The average score for all companies was a negative 20, so the survey title: "American Business Faces a Crisis of Trust" was certainly apt. Two out of three of the lowest scoring industry groups were from the financial services sector: Insurance (-59%) and Brokerage/Wall Street (-58%). The only other industry with a lower trust rating was Oil & Gas (-63%). If the financial services industry did something to reduce the amount of rubbish they generate, then perhaps there would be a higher level of investor trust. On the other hand, The Skilled Investor suspects that industry profits would suffer if the industry were to be more straightforward with individual investors. Therefore, perhaps you should not hold your breath for a change in veracity. Individual investors are simply going to have to sort truth from fiction on their own without unbiased help from the industry.

SCROLL DOWN FOR LINKS TO OTHER ARTICLES IN THIS CATEGORY * Perhaps for your amusement (and definitely for that of the author), here is a list of synonyms for "rubbish" collected from a variety of thesauruses. Synonyms include: artifice, babble, balderdash, baloney, bilge, blather, bombast, BS, bull, bunk, bunkham, cheating, claptrap, codswallop, conjuring, crap, craziness, deceit, deception, delusion, drivel, fatuity, fiddle-faddle, flimflam, folderol, folly, foolish discourse, foolishness, foolish talk, fraud, garbage, gibberish, gobbledygook, hoax, hocus-pocus, hogwash, hokum, hoey, horse feathers, hot air, humbug, idiocy, inanity, irrationality, irresponsibility, jive, legerdemain, ludicrousness, lunacy, madness, malarkey, monkey business, mumbo jumbo, nonsense, nonsensical beliefs, palaver, poppycock, prattle, preposterousness, pretense, rot, senselessness, silliness, sleigh-of-hand, smoke-and-mirrors, stupidity, swindle, tommyrot, trash, tripe, twaddle, witlessness, etc.

1) Securities Industry Association. Annual SIA Investor Survey: Investors' Attitudes toward the Securities Industry. Harris Interactive (11/2003), Wirthlin Worldwide (11/2004)

2) "American Business Faces a Crisis of Trust" Golin/Harris Trust Survey, 2002, <http://www.golinharris.com> (The Skilled Investor has not found information about a more recent industry trust survey from Golin/Harris.)