

## CONSIDER THE INCENTIVE

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It is very important today to be cautious about what information we expose ourselves to, and especially any action we take based on such information. The reason is we must look behind the information to consider the incentive, if any, of the source. In this month's article we will explore a few examples for illustration.

#### **Financial Newspapers and Magazines**

These sources often write articles on the hot topic of the day and the journalist, who many times is not an expert on the material, will quote other sources whose credentials can not be validated. Their message is they can provide you with investment knowledge at a low cost (for example, \$5.95 per month per publication), but their incentive is to *sell more publications*. More sales translate into more publications and advertising revenues. It is a rarity to find timely, relevant, and material information from these sources that has not already been digested and acted upon in the financial markets.

#### **The TV Guest Portfolio Manager**

These sources can be self-serving. On a recent CNBC episode the guest portfolio manager was asked for a few of his favorite stock ideas. The manager provided the names of several and brief reasons for why he believed they were "buys." And why wouldn't he? He already owns them in his portfolio. His message is these stocks may represent excellent investment opportunities, but his incentive may be to get other investors to *bid prices higher*. More buyers could translate into higher returns. While every investor is always looking for new quality investment ideas, it is important to do your own homework and be skeptical of the free investment "tip."

#### **The TV Entertainer**

There are many entertaining shows on financial TV, but one very well known host has a persona almost second to none. His message is he will help you make money from investing in the stock market. While only those viewers who act on his "tips" know if this is true, his incentive, whether implicit or not, is to *increase the number of viewers*. More viewers translate into higher ratings, and, like financial newspapers and magazines, results in higher advertising revenue. Advertising revenue keeps the show on the air.

By pointing out this information I am not suggesting you should avoid these sources and the information they provide. On the contrary, it is always worthwhile to learn something new, especially if it is material information. It is important, however, to always keep in mind the biases of the source to consider their true incentive.

For readers who are not current clients, I would be happy to talk with you to review your current portfolio and strategy to identify changes that could be of benefit in this challenging market environment.

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