Don't Get MADD

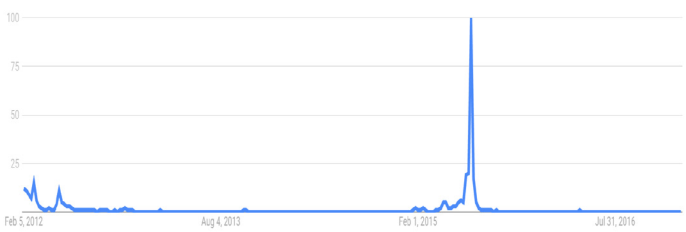
SYNOPSIS

- Greece is back in the news, but it seems as if nobody cares this time around.
- There is an epidemic that has plagued Wall Street for centuries, and investors must do everything within their power to avoid infection.
- Fortunately, investors can protect themselves with just a little bit of self-control.

ANOTHER GREEK TRAGEDY

Google hosts a website called Trends (https://www.google.com/trends/), which graphically displays the popularity of a search phrase over time.

The chart below is a trend report on "Greece Default," and interest clearly spiked in the summer of 2015, when the story blanketed the front page of newspapers and consumed airtime on financial news networks.



Source: https://www.google.com/trends/explore?q=greece%20default

Market pundits, the ones paid to have an opinion on the market at all times, proclaimed that Greece was the canary in the coal mine, marking the beginning of the end for the European Union. The ensuing panic rippled across global financial markets.

Greece's share of global gross domestic product (GDP) is less than one percent, and the U.S. economy does not rely on Greece for anything, but the anxiety was still high enough to cause our equity market to shed hundreds of billions in value during this period.

Then, the Greek government and its creditors announced a plan. Rather than fixing the problems caused by decades of fiscal stupidity, both parties agreed to do what politicians do best, which is nothing at all. They simply kicked the can down the road.

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That decision sealed Greece's fate, and things were inevitably going to get worse for the country and its citizens. However, instead of global financial markets falling even further on the news, they rallied swiftly.

It's strange to think that the world's largest equity market could fall on news that a country as insignificant as Greece was heading towards default. It's downright baffling that stocks would then recover on news that the situation in Greece was going to get worse. But that's precisely what happened.

Fast forward to today and Greece is back. The Greek government and its creditors finally reached that can they kicked down the road almost two years ago and are faced with the same dilemma as before.

Unsurprisingly, the situation in Greece is much worse today than mid-2015. The result of rampant corruption, entitlement programs that continue to grow, and its citizens joining together in statement of national pride by refusing to pay taxes, has put their economy in dire straits.

However, this time the story has yet to make page one. The financial news networks may casually mention

Greece, but only in passing. For the most part, it's become a nonevent.

Those who rely on logic and reasoning to guide their thinking are likely perplexed. Why would the market pay so much attention to a bad situation years ago but now ignore it, particularly when it has become so much worse?

MADD

Such a question brings to light an epidemic that has plagued Wall Street since stocks began trading centuries ago. It's one that can hook even the most seasoned investor and has altered the financial future for a countless number of victims.

Although no health organization has officially recognized this ailment, I refer to it as **M**arket **A**ttention **D**eficit **D**isorder, or MADD for short. Investors get MADD when insignificant events repeatedly pop up over time, but generate different market responses along the way.

An outbreak of MADD typically requires three preconditions to be met. First, the news must surprise the market to the point where traders run around with their heads cut off for at least a week. Second, as the news gets worse, market volatility must accelerate. Third, an inflection point must occur where the market recovers on either no news or worse news.

A Greek default certainly meets all three conditions: (1) The initial shock of a country who had less cash in the bank than Apple could default caused panic to ensue for longer than a week, (2) global financial markets continued to fall as the headlines became direr, and (3) Greece has done nothing to improve their situation, yet financial markets seemingly lost interest long ago.

MADD outbreaks are quite common, and here are a few notable ones from recent history:

- **Syria**: In August 2013, Syria's leaders launched chemical weapons on their own people. That day, Verizon and AT&T, two companies with no customers in Syria, both fell over one percent along with the rest of the S&P 500. Today, Syria has deteriorated into a humanitarian crisis, yet the market has ignored it.
- **Russia/Ukraine**: The week that Russia invaded Ukraine, global equity markets were whipsawed. As the violence escalated over the coming months, markets responded by eventually dismissing it.
- **Government Shutdown**: In October 2013, the U.S. government shut down for several days. The S&P 500 sold off hard but quickly recovered once headlines indicated that our own country's fiscal stupidity would continue.

The danger of MADD is that the insatiable desire for a new story causes an investor to lose focus on the bigger picture. Long-term stock prices run on fundamentals, but since these drivers do not change much over time, they become boring to those infected with MADD.

MADD is highly contagious, so investors should seek immediate help from a trained financial advisor if any of the following symptoms occur:

- The constant urge to know what is driving the stock market every minute of the day
- Trading on events that have no bearing on the fundamentals
- Feeling like the market is going higher, only then to reverse course days later
- Casually mentioning any of the following to a loved one: "That's old news," "My positions are getting stale," "I need some more action in the market," and/or "The market does not care about 'xyz' anymore"

Much like standing water is a breeding ground for mosquito-borne influenzas, the stock market poses the same risk for MADD to spread uncontrollably due to the never-ending sensationalism from the media. Fortunately for those infected, there is a cure, but it's not easy.

IMPLICATIONS FOR INVESTORS

When I was very young, my father quit smoking. Watching who I still regard as one of the most logical and strong-willed individuals in the history of civilization, go completely crazy for months as he kicked the habit instilled two life lessons that have benefitted me to this day.

First, never under any circumstances smoke a cigarette. Not at a fraternity party, not after watching an episode of *Mad Men*, or any other reason. Second, we are all human, and controlling emotions can often be incredibly difficult.

Even I struggled with MADD in the past. There was a time, many years ago, where I could not get enough financial news on television. I would wake up, turn on one of the networks, and remain glued to programming well into the evening. It got so bad that there were days when I would stay awake to watch Asian markets open.

I knew the dangers involved. Long-term fundamentals are boring because they do not change all that often. Since financial news networks are in business to make money, and boring does not sell all that well, they create drama instead because it is more profitable.

The impact of the unending stream of dramatic storylines eventually convinced me that I needed to be trading more to better respond to the short-term ups and downs in stock prices. This went on for some time until I realized I had deviated from my long-term investment strategy.

It was the memory of my father forcing himself to quit smoking that gave me the strength to kick MADD. I replicated his system that involved smoking less each day over the course of a month. On day one, I woke up and did not turn on the television until after the market opened. The next day, I waited until 11am. The day after that, I made it until lunchtime.

I will not sugarcoat the experience because it was tough. At first, I constantly felt "disconnected" to the market. When volatility spiked, I panicked because I had no idea what was driving stock prices. Then, one day, that dark haze that had hung over me for so long vanished. The need to turn on the television was gone, and clarity was restored.

Similar to Alexander Fleming's accidental discovery of penicillin, I had stumbled across a cure for MADD. On paper, the solution is simple. The next time a crisis hits the headlines, put the remote control down and remember that these events almost never derail $19 trillion economies.

In practice, it's a little more difficult when an investor feels as if their nest egg is on the line. Therefore, going "cold turkey" is not the answer. Try to watch a little less each week until the urge naturally disappears as immunities build slowly over time. Patience is key.

The bottom line is that the best was to protect against MADD is to avoid the sensationalism that is pervasive across financial news networks.

Sincerely,

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