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Watching the News

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There is a somewhat irrational urge by investors to always stay informed with the latest news and have well-formed opinions about their implications for businesses and the broader economy. The truth is, no one really knows how the news cycle will change; transforming what was once supposedly relevant news into obsolete opinions destined to be forever forgotten. A good, recent example of this is most of the articles written about the Trump trade war with China.

Think of anything you have ever read or watched on the news on a Monday that became completely irrelevant by Friday. As investors, a good way to overcome this barrage of irrelevancy constantly thrown at us is to spend Friday reading a summary of the week's news. This allows you to focus on what is important instead of constantly being distracted by the latest news headlines. It gives you the weekend to think more deeply about the consequences of the news, if any, on one's investment decisions without the ability to act on them until Monday.

In chemistry, the half-life of a reactant (things that are reacting) is the time it takes for it to halve in quantity. Reactants with a short half-life are used up quickly and don't last long. Radioactive elements like uranium used in nuclear reactors have a very long half-life. This is why it is easy to predict how long after a nuclear incident an area becomes habitable again. A long half-life brings some measure of order and predictability into an otherwise chaotic and unpredictable world.

A similar concept can be applied to investing where the half-life of a news article is the time it takes for its relevancy to halve. Of course, one can't precisely measure "news relevancy" to determine its half-life like in chemistry, but the concept still holds.

A good way of spotting news articles with a short half-life i.e. at risk of becoming rapidly irrelevant, is if the news article is strongly opinionated and covers a recent or upcoming event that has a large underlying complexity. Think of Brexit, the crisis in the Middle East and the upcoming US elections. The outcome from three of these is undoubtedly important. However, articles written on them usually have a very short half-life and do not age well. Most news, by its very nature, will have a short half-life. The same applies to most nonfiction books that people read.

There is often more truth in fiction. Aesop's fables, written sometime around 600 BC, unintentionally has some of the oldest and wisest investing lessons. At Tacit, we ultimately try to focus most of our time on information that has a long half-life. This means understanding human behaviour, financial history and long-term economic cycles instead of worrying about the latest news headline.