

PhilEquity Corner (March 30, 2009)
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The Effect of Talking Heads On Market Sentiment

Experts are engaged by TV business and general news programs to elucidate on unfamiliar issues like “fiscal stimulus” or “nationalization of banks”. The explanations are supposed to guide potential investors, whether they’re trying to extricate themselves from their positions or planning to plunge back into the fray.

The financial meltdown has made talking heads a staple of the business news program. These so-called experts are supposed to make sense of what’s going on in the roller-coaster prices of stocks (they use the word “volatile”.) and can use financial jargon like collateral debt obligation in a declarative sentence.

Are these experts always the objective analysts they present themselves to be? Do they have an agenda to push using their TV appearance for credibility to sway opinion in the direction they want? Thus, short-sellers tend to present an apocalyptic view of the stimulus package and attempts to rescue homeowners (too little, too late) or banks under siege including from the verbal battering rams of talking heads.

Why are talking heads now becoming a vital part of covering economic news?

Business news is becoming complex. And the world’s economic health seems to be tracked by stock movements and indicators like jobless rates and the price of gold. In local news are added our own parochial problems like the convoluted relationship between rural banks and pre-need plans and whether congressional savers need to be rescued by the PDIC. Experts are snagged for historical or procedural explanations on how the current situation developed or where it can lead. Can senate investigations be far behind?

Still, some accreditation process needs to be applied to the designation of subject experts. Why is a talking head providing opinions on both economics and politics? (I don’t want the president to succeed.) Just because a resource person comes from academe does not mean he is objective or even well-informed. This same professor talking about the possible decline of inward remittances of OFWs (no statistical evidence is offered) and the hit the peso will take will in the same breath essay his opinions on party politics, and the merits of the bill on reproductive health. (Sir, which particular expertise do you wish to claim?)

Is it mere availability and access that determines the interviewee for a specific subject? Shouldn’t his credentials, especially current involvement in the designated topic, be disclosed before being allowed to pontificate in front of a TV camera? Please check-in your hidden agenda before you speak on the lapel mike.

In handling experts, media interviewers too need to have some basic understanding of an issue to be able to challenge erroneous views being proffered by citing contrary opinion from another source. An inept interviewer is a problem even in foreign business news channels. He can fail to draw out the expertise on offer. Couching a question wrongly can irritate not just the expert but the informed viewer as in the interview of billionaire/Ponzi enthusiast Allen Stanford. Weeks into doubts of his portfolio performance, a CNBC interviewer's has this soft lob as his last question—how does it feel to be a billionaire? (Answer: “It feels fine.”)

Before they are allowed to appear on TV, experts must be introduced with a short note on their bona fides, including their line of work—now, we will have an explanation on the mechanics of naked short selling by the CEO of a company engaged in this pernicious practice.

News is no longer about simply reporting events but providing a context of their significance to the viewers. The difference between simply reporting incidents and understanding their implications is the same distinction between data and information.

A studio talking head in front of a camera provides little visual interest. Now, news programs offer charts (year-to-date price movements of stocks) and even clips of landmarks like the office of investment banks with their wraparound tickers for the stock prices. Talking heads are now situated in the eye of the storm. In the reporting of recent hurricanes, this was literally the case.

Unlike weather reporters, financial journalists do not merely report the storm coming and the need to evacuate its path. The danger of tracking storms, meteorological or financial is the perpetual tone of crisis being projected. The voices are shrill. The pulse rates are high. And the air of the world ending in an hour or two is palpable. The weather man in a raincoat being buffeted by high winds should not be the model for financial reporting.

Panic in the stock market goes beyond a storm's flight path.

Dramatic backdrops, charts especially those with pop-ups and zoom-ins, satellite tracking of hurricanes, and backdrops of the big board add to the immediacy of talking heads.

It's not always doom and gloom that talking heads provide, although the pessimists tend to play their role. Even if there is a sustained rally, it is dismissed as a “false dawn” or a “bear rally”. Thus, even positive news can be put in a depressing context.

Nothing is more satisfying to the intelligent viewer than watching a news program featuring a well-informed and objective expert being interviewed by an intelligent and knowledgeable news anchor. This perfect tennis of questions and answers ends up producing more light than heat and a better understanding of what's really going on.

The chatterers on air in Bloomberg, for example, are all fetching women who seem to have whizzed through their MBA. The Rule on Useless Information states: “When data is presented by fast-talking women who seem to understand economics and have good looks and low necklines, local relevance doesn’t matter.”

In Manila, our talking heads are not limited to media. More reliable and far more interesting are heads around the boardroom table exchanging business gossip on who has been ratcheting up the price of a stock and what is behind the frenzied acquisition of a growing stake in an unrelated utility or where the money is coming from.

These self-appointed talking heads are plugged in even if their biases and alliances are clear. In another country, the issues they discuss privately can be the subject of litigation as breaches on public disclosure. That the information so gathered then becomes the basis for buying or selling stocks the following day (do not hold beyond Friday) is in these parts not considered “insider information”. After all, these talking heads are not executives, directors, or related interests of the company under discussion. They are simply friends (or friends of friends) in the know.

Whether in media or around the boardroom, talking heads affect the business climate along with the mood of the investors.

What is needed at this time is either comic relief or a vow of silence so that only statistics and real business strategies do their work of recovery without any distortions from clueless talking heads.

It is possible that the talking heads will miss the recovery entirely when it comes.

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