Investing and the News

Estimated time: 5 minutes / Difficulty: Basic

You can't go very far without encountering news about the economy and the market. It's in your phone, on the TV, at your school or your office, and the faces of the people around you.

There are so many pieces of information and buzzwords flying around that sometimes we forget to stop and think what it actually means. We aren't referring to the vocabulary that we've been working on here, but rather the events and real life things around you that might make a difference in the market.

What you see and hear in the news can affect the the stock market.

News About Individual Companies

Share prices are affected by a variety of factors, but in theory one of the biggest drivers of share price is the expectation of a company's future earnings. The value of the company, and therefore the piece of it that you own, is dependent on the excess cash that the company can ultimately provide.

So why the constant fuss about **earnings releases**? Well, investors pay close attention to how companies perform relative to their projections. If you buy stock today that is priced on the expectation of earning $100 during the next year, at a pace of $25 per quarter, you would begin to be concerned if the company only earns $20 in the first 3 months.

Companies often hold conference calls or release statements along with their earnings. They do this to try to explain what happened, either good or bad. Maybe you will be less concerned about the company only earning $20 if you learn from the CEO that they already have orders for $40 the next 3 months.

On a similar note, investors pay close attention to **management turnover**. If a company has had a successful CEO for a long time, and they decide to retire, investors may worry that the company may falter, make strategic errors, or simply lose some of its brand. Just as important to share price are announcements surrounding **mergers and acquisitions.** If a company is the subject of a takeover, or announces plan to buy a competitor, investors will immediately assess the impact. Are they paying too much? Will it increase earnings? Will it give the combined company a competitive edge or access to new customers?

It can also be useful to pay attention to **public perception** of a company's product. If it has projected growing sales in the next year, but customers and people around you are complaining a lot about the product quality or service, you might be wise to question whether or not it will meet those projections.

The Broader Economy

There are also certain **economic indicators** that can change investor opinion, and therefore markets and share prices. These often come in the form of **data releases** from government agencies, educational institutions, and private research firms, and can range from the obvious to the mysterious.

You'll often hear references to changes in **GDP**, or **gross domestic product**, which measures the economic health of a country through its production and consumption. If GDP is increasing, that means companies are producing and selling, and consumers, or people, are buying and using things. Another important indicator that non-investors also pay attention to are **unemployment figures**. If more people are working, that means companies are growing and hiring, and people will have more money to spend.

Going along with that, measures of **consumer confidence** also receive a lot of attention, as consumer's willingness to spend can greatly affect GDP, given that consumer spending represents 65% of GDP for most developed economies.

Many investors have additional indicators that they look for, and professional investors and funds oftentimes spend a lot of money to be able to have instant access to the information when it becomes available.

You'll find that there are hundreds of different indicators on the internet, of varying usefulness depending on what industries you are investing in. If you've invested in manufacturing companies, you might be interested in the *US manufacturing survey*, if you're invested in construction companies, you might be interested in *housing starts*. If you're invested in food companies or restaurant chains, indicators related to *farm production* or *farm employment* may be important to you.

The Climate

Speaking of farming, something which has a great deal to do with the weather, the **climate** can have a big impact on the market and individual stocks. If a hurricane destroys a large number of homes and slows down the economy of a country or a region, investors will likely be pessimistic in general, and may worry about specific stocks, such as insurance companies. Draughts or frosts can destroy entire crops, driving up the prices of goods used in important foods such as bread or beef production.

Yet it's not just the literal environment. The international and domestic **political climate** can heavily influence the markets.

When larger countries make the decision to go war or suffer from terrorists attacks, there is usually a reaction in the market. After the September 11 attacks, the main US exchanges didn't open for several days, and when they did, they fell significantly. Investors were also worried what the impact would be on air travel, so they became pessimistic about stocks like American Airlines and United. Conversely, in times of larger scale conflict, military equipment and weapons manufacturers tend to do well financially, which means investors might look at their stocks more favorably.

Geopolitical events like the UK's decision to leave the EU can leave investors feeling uneasy about the impact it may have on trade, immigration, and currencies, among other issues.

Furthermore, investors can react positively or negatively to elections results, depending on whether they perceive new leaders to be likely to enact what are perceived to be "business friendly" policies, such as cutting taxes or regulations.

Government Policy

The actions of the government, both through the leadership of politicians and the policies of agencies, can have a profound impact on the markets.

This influence falls into several different categories. **Monetary Policy** refers to the government's ability to control the supply of money and interest rates. More simply put, the central bank can print more money, buy or sell bonds, or change the amount of money banks need to keep in reserve. Most of these policies are directed at controlling inflation. As you may recall, inflation is the rising prices of goods and services over time, something a government wants to control to provide stability for businesses, investors, and citizens.

Fiscal Policy centers more on government **spending** and **taxation**. You're surely familiar with taxation, which is something governments can increase or decrease for both people and companies. This can affect how much money people have to spend, or how much companies invest in growth, which in turn affects expectations for the stock market.

Similarly, when the government decides to invest in infrastructure, like roads and trains that help people and businesses move and spend this can be considered a **stimulus.**

Governments often times **subsidize,** or provide support for, certain industries like food production or energy. During times of crisis, the government may **bailout** certain important companies, such as banks, that may have a wider impact if allowed to fail. If investors perceive that the government is going to support a given industry, this will usually lead to optimism surrounding the related stocks.

On the contrary, governments can also choose to increase or decrease regulatory control over certain industries. As an example, when countries take decisions on environmental policy, this can cause investor concern for automobile, petroleum companies, while health policy might affect cigarette or insurance companies. Similarly, pharmaceutical company stocks often live or die by the approval or rejection of drugs by the authorities.

Lastly, countries can pursue **trade policies** such as tariffs, or taxes on foreign imports, which can affect share prices. When the US taxes steel imports, this may increase the cost of operations for companies that rely on steal, thereby causing a drop in their share price.

Conclusion

Share prices, and whether investors are bearish or bullish, is incredibly hard to predict. Any given day, factors such as the weather, the politicians, CEO conference calls, or bad product reviews can have an impact. While there are teams of experts working at investment firms dedicated to predicting and reacting to the news, as an individual investor, you probably don't have the time.

If you've chosen to be a more patient or passive investor, the good news is that most of the time you don't need to react. Even if a particular investment or the market as a whole is down any given day, you can take your time and wait for it to recover. Yet if you are a more active investor, it helps to keep track of the news surrounding the specific companies you have invested in, the sector it belongs to, and the broader economy.