Three Forest Plaza
12221 Merit Drive, Ste. 1725
Dallas, Texas 75251
Phone: (972)770-4800
Fax: (972)770-4888

Perryman Financial Advisory, Inc.

October 2008

- About Us
- Meet the PFA Team
- PFA in the News
- Contact Us
- Calculators
- Web Links

Stocks: The Meltdown and the Media

By Ben Steverman, Businessweek.com

Wall Street has been through crises before – 1907, 1929, the 1970s, and 1987 all tested investors as much as the financial crisis of 2008. But this time, something is different: Three cable business channels and countless web sites offer 24-hour coverage of financial markets seven days a week.

The sheer quantity of information available raises the question: Could the media actually be contributing to the very crisis it is covering? During past crises, average investors needed to wait until the evening news or the next day's newspaper to learn how their investments had done.

A Recipe for Panic

This year, the financial panic has unfolded minute by minute in front of investors' eyes. Meanwhile, online tools allow investors to make rash decisions, buying or selling stocks with the click of a mouse. It's a media environment that seems like a recipe for panic. Thus, CNBC's Jim Cramer terrified many with his call on Oct. 6 for investors to sell stocks. "Whatever money you may need for the next five years," he said, "please take it out of the stock market right now, this week."

Downbeat headlines and bearish market analysis in major financial publications have offered readers plenty of pessimism in the past couple of months as well. The media frenzy has reached a point where CNNMoney.com advises its readers, for the sake of their sanity, to "Turn off CNBC." Yet despite plenty of gloomy headlines and panicked talking heads, Richard Sparks of Schaeffer's Investment Research doesn't think the media are adding unnecessary fear to the market. "The facts themselves are scary enough," he says. It's a historic crisis, "and it hasn't needed any embellishment from the media," he says.

Still, the media can contribute to "huge swings in optimism and pessimism by investors," says Christopher Smith of the University of Southern California's Annenberg School for Communication. When conditions look good, analysts on TV are often "excessively optimistic," he says. "When things go sour, they outdo each other telling people how bad things could get."

Adding to the fear is the fact that, while more and more people own stocks through individual retirement and 401(k) accounts, many Americans remain fairly uninformed when it comes to investing and the way financial markets work. Add in a crisis that is so complex that it's hard to describe simply, and, "people are just paralyzed," says Marty Steffens, chair in business and financial journalism at the Missouri School of Journalism. "Most people I talk to have no idea what to do."

Financial media outlets are used to serving active investors who are usually fairly well informed, but the crisis has attracted attention from plenty of Americans with very basic questions, such as whether bank accounts are safe, Steffens says. Moreover, "there's also the huge danger of giving someone the wrong advice," she says. "What might be great advice for me might be bad advice for you."

Sharp Pain for Institutional Investors

Even with these stresses, however, there is anecdotal evidence that average Americans and individual investors are actually less panicked these days than the professionals on Wall Street are. Many hedge funds, for example, are being forced to sell off assets *[deleveraging]*, Sparks notes. An individual saving for retirement has the luxury of waiting out a big market sell-off. Institutional investors, by contrast, are judged by their short-term performance. "They're feeling more pain than the individual investors," Sparks says.

Continued...

Market Watch

	10/31/2008	YTD
DJIA	9,325	-29.70%
S&P 500	968	-34.08%
NASDAQ	1,720	-35.15%

Social Security payments getting 5.8% hike

Social Security benefits will rise 5.8% starting in January, the largest rate increase since 1982. Among all retired workers, average monthly Social Security benefits will rise to $1,153 from $1,090, an increase of $63. The adjustment in payments is meant to help beneficiaries keep up with rising cost of living, and is based on data from the consumer price index released by the Labor Department.

The rate hike will raise benefits for the more than 55 million Social Security and Supplemental Security Income beneficiaries. Of course, not all of the news from the Social Security Administration was good. About 11 million workers will be paying more in Social Security taxes next year as the maximum about of income subject to the payroll tax will rise from $102,000 this year to $106,800 next.

Questions or comments? E-mail us at jperryman@billperryman.com or call (972)770-4800.