

Have you heard of the Super Bowl indicator? It goes something along the lines that if an original NFL team (pre-1970 merger between the NFL and AFL) wins the Super Bowl, the stock market should have a positive year. If a team that is a non-original NFL team or an AFC team wins, then the market returns are projected to be negative. This predictor has been accurate in 33 of the prior 41 Super Bowls for a respectable 80% success rate. Given that the New York Giants, an original NFL team, won this year's contest, according to the indicator, the market should rise in 2008. It would not be a wise decision to place much reliance on such an indicator for which there is no basis for the relationship between the results of a football game and the US equity market. The fancy quantitative term for this is called spurious correlation. If anyone can explain this cause and effect here, we will gladly listen.

Speaking of contests, perhaps you may be aware that in 2008, there will be a presidential election in the US. In nine of the last ten presidential election years (that is since 1968), the stock market has had a positive return. The only exception was 2000. However, a new presidential administration does not take power until the following year. Examining the market returns in the year after a presidential election show only five years of a positive return during the same time period. So without a doubt, we can state that there is not enough meaningful information to draw any meaningful conclusion from the above.

So what was the purpose of tossing out those figures above, other than the fact it can be used for small talk at a cocktail party? Those tidbits are examples of how human beings can use information incorrectly. We humans are wired to make decisions by sometimes taking mental shortcuts or make decisions without having enough information. The way information or a problem is presented to us greatly influences our decision making process. There is a whole field of study on the topic called Behavioral Finance and Economics that examines a blend of traditional finance and economics with psychology and sociology in an attempt to better understand the economic decision making process. Another way to state this, is those who understand markets and who can identify inefficiencies along with trends should earn better returns.

The overwhelming majority of research into financial success points to those who invest for the long-term and who can filter out meaningless information enjoy a higher probability for success. This is becoming more challenging in a world with faster and greater flows of information. Technology can be a double-edged sword in helping us sift for information; however it cannot replace human strategic thinking. Absorbing, analyzing, and making decisions in an ever changing world is important for both survival and prosperity.

What is on our radar screen at QRS? The usual current news and business events require attention and analysis in more depth than what is presented by the mainstream media. It is not wise to view events without attempting to understand the repercussions of events into other areas. As Gilda Radnor's Saturday Night Live character, Rosanne Rosanna Danna used to say, it just goes to show you, it's always something. We prefer to identify and prevent the somethings to guide clients towards their financial goals.

A big blip on our radar screen is the US elections. Most people with the media as their guide have their eyes only on the battle for the White House. While the top spot draws the most attention, for some real action in US elections, more attention should be paid to the Congressional elections. There are 35 Senate seats up for election (there are usually 33 seats up for election every two years, however there are two special elections, Mississippi and Wyoming, for seats vacated in 2007). In the Senate, there will be five incumbent Republicans retiring. There are 12 Democratic and 21 Republican seats up for election. Those two special elections are for seats held by Republicans. The House of Representatives is always interesting as more local politics come into play. We will not even attempt to forecast results so early in the election cycle. However, we must attempt to understand what legislation could be enacted next year if one party were to capture both houses of Congress and the White House. Until the results are final, it is all just speculation.

We also encourage people to understand what key events are taking place in their state and local elections as the people in locally elected government will have more influence in your day-to-day life than those in federal government.

All of us will be getting our fill of talking-head debates and predictions (of which most will be incorrect). It is a shame that the majority of the American people and voters do not understand the responsibilities of the President and Congress as set forth in the Constitution. It is troubling that many people fail to take the time to read and evaluate the positions of the candidates so that they may make better informed decisions in all elections. Of course, that is assuming people even take the time to vote.

And as further proof that the circus remains in town, Congress is busy investigating such crucial matters as whether professional athletes were using steroids or teams were cheating by videotaping what their opponents were planning. These professional sports leagues have been granted special anti-trust exemptions by Congress. The country and baseball managed to survive the Black Sox scandal of 1919. Somehow, life will probably go on whether or not we ever get the real story behind steroids and videotaping. It should be comforting to know that Congress has the time to address these pressing issues. It is not as if the country has any more important problems on the horizon that our elected officials should be heeding a call to action.