

OUTSIDE THE FLAGS

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In Other News

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Bad news sells. It sells because fear is a more powerful emotion than greed. Newspaper editors know that, which is why the front pages are often so depressing. But sometimes you need to dig inside the paper for a more balanced view.

The bad news has been dominant in global markets in recent years, starting with the banking crisis of 2008 and more recently the sovereign debt crisis focused on Europe.

But other things have been happening. And any investor wanting an antidote for the grimmer headlines might like to reflect on the following recent news snippets:

1. US stocks rose for a sixth week, giving the S&P 500 its longest rally since January 2011, as economic reports beat forecasts and Germany backed the ECB's bond-buying plan. – *Bloomberg, August 18, 2012*
2. US consumer sentiment improved in early August to the highest in three months as sales at retailers and low mortgage rates spurred Americans to boost their buying plans, a survey shows. – *Reuters, August 17, 2012*
3. Germany's Finance Ministry says the nation's tax income was nearly 9% higher in July from a year earlier—helped by recent wage increases and the underlying strength of the economy. – *The Associated Press, August 20, 2012*
4. Sweden's centre-right prime minister has backed a cut in corporate taxes for his Nordic state as it defies the gloom of the euro zone. – *Reuters, August 18, 2012*
5. UK jobless claims unexpectedly fell in July and a wider measure of unemployment dropped to its lowest in a year as the Olympic Games created jobs, showing the labour market's resilience. – *Bloomberg, August 15, 2012*
6. Australia is the new safe haven. Robust tax revenues and restrained government spending have put this 'AAA'-rated

nation on investors' radars. Government ten-year bonds have returned 17% so far this year. – *Wall Street Journal*, August 14, 2012

7. Japan has offered its strongest indication yet it sees a way out of deflation next year, after being mired in a corrosive mix of falling prices and weak economic growth for much of the past two decades. – *Reuters*, August 17, 2012

8. Norway's sovereign wealth fund—the largest in the world—is planning to take on more risk as it seeks to exploit its role as a strategic investor. – *Financial Times*, August 20, 2012

Now, none of these headlines are news to the markets. And pointing them out this way does not constitute a forecast. But it is worth reflecting on the fact that the economic and financial news is not all bad at the moment.

Sometimes, as citizens, consumers, and investors, we can become overwhelmed by negative headlines and can end up making counterproductive decisions about our lives based on historical events that we have no influence over.

The fact is markets quickly incorporate news, good or bad. And for every person who capitulates and sells stocks based on news, someone else with a less negative view and/or a longer-term horizon is on the other side of the trade.

Maybe the best approach is to start reading the newspaper from the back page.



“Outside the Flags” began as a weekly web column on Dimensional Fund Advisors’ website in 2006. The articles are designed to help fee-only advisors communicate with their clients about the principles of good investment—working with markets, understanding risk and return, broadly diversifying and focusing on elements within the investor’s control—including portfolio structure, fees, taxes, and discipline. Jim’s flags metaphor has been taken up and recognized by Australia’s corporate regulator in its own investor education program.

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