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Google Gives Insight & Perspective for Investors

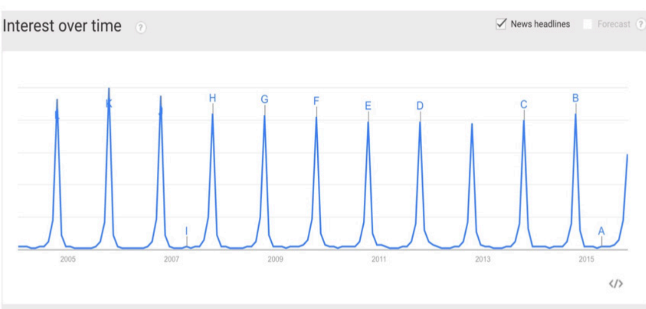
SYNOPSIS

- Google Trends is a website that allows a visitor to gauge the popularity of a search phrase over a given time period.
- Two years ago, we were forced to endure a "government shutdown" and "debt ceiling" scare, thanks to the dysfunction from our fearless leaders in Congress.
- These very same concerns have begun to make page one headlines once again, and Google can teach us some very important lessons from history.

TRENDS ON GOOGLE

Google hosts a website called Google Trends (https://www.google.com/trends/), which allows a visitor to search on a phrase and then graphically displays how popular the search phrase has ranked over a specific time period.

For example, the chart below shows the popularity of a search on "Halloween" over the past decade:



Source: Google Trends

It should be no surprise that interest for a search on "Halloween" spikes around October of every year but then promptly disappears after trick-or-treating has concluded.

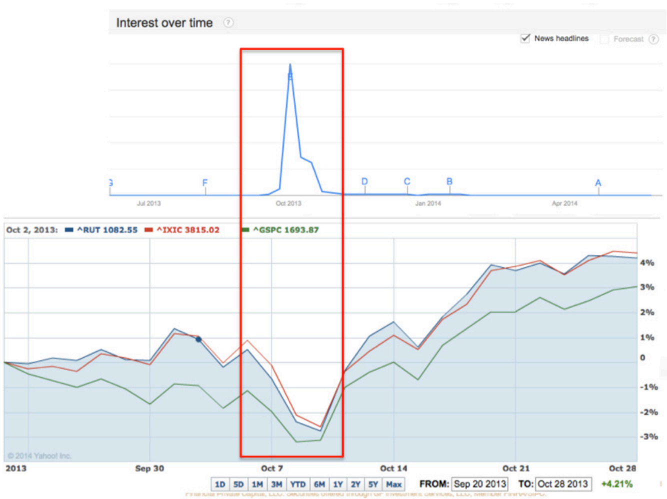
Since I spend much of my time speaking to investors about the importance of ignoring the short-term movements in equity markets, I find Google Trends to be an indispensable tool to provide further evidence that volatility is mostly driven by what's on page one in the news.

HERE WE GO AGAIN...

Recently, the dysfunction in our government has led us to yet another discussion about the potential for yet another "Government Shutdown" and yet another "Debt Ceiling" crisis. All we have to do is turn back the clock two years to revisit the last time we were forced to live through this drama inspired by our fearless leaders in D.C.

It takes a lot more than a government shutdown and/or a debt ceiling debate to drive the world's largest economy into a recession.

Back then, we were inundated with headlines in the press and warnings from our Treasury Secretary about the dangers of defaulting on "obligations." The fear mongering had a profound effect on markets, as investors were terrified of the notion that the U.S. would not be able to pay its bills. In fact, Google Trends can show us the precise impact this panic had on equity markets in the following graphic:



Source: Google Trends, Yahoo! Finance, Aviance Capital Analysis

I ran a Google Trends analysis on the phrase "Government Shutdown" from mid-2013 through mid-2014, and then I compared this chart to the short-term performance of the S&P 500 (green line indicating large cap stocks), the Russell 2000 (blue line indicating small cap stocks), and the NASDAQ (red line indicating a mix of growth stocks).

As the chart indicates, nearly all stocks in U.S. equity indices were impacted by the fear and panic inspired by the notion of a government shutdown. Three observations are worth noting:

1. **Stocks Were Hit:** Stocks fell around 3% at the start of October. How is it possible that companies like Apple, Verizon, and Facebook could have their long-term earnings potential impacted by 3% in a matter of days over a government shutdown and/or debt ceiling breach? Here's a hint: It's not possible.
2. **Fear Didn't Last:** Once the panic subsided as Congress worked out a deal, the indices quickly recovered (right around the time when the interest of the government shutdown disappeared on Google) and continued to rise higher as investors shifted focus back on earnings and economic growth.
3. **Panicking Lost Money:** Those who sold into the panic locked in a loss. Yet again, panic selling did nothing here but hurt those investors who got caught up in the emotional component of equity markets.

Here are some more facts for investors to keep in mind:

- Government shutdowns have occurred in the past and generally only last a few days, until Congress ultimately passes a budget.
- Since the modern congressional budgeting process took affect in 1976, there have been a total of 18 government shutdowns.
- The most recent shutdown occurred in 2013 and lasted 16 days, and the longest lasted 21 days (back in 1996).
- In regards to the debt ceiling, this is a legislative restriction on the amount of national debt that can be issued by the Treasury to meet its existing legal obligations.
- The debt ceiling can only restrain the Treasury from paying expenses that have already been incurred, meaning the government may not be allowed to borrow more money but it can still continue to operate and increase its future liabilities.
- The debt ceiling is not set in stone, and since 1940, Congress has acted 95 separate times to modify it in some way. Said another way, the debt ceiling is practically useless and is nothing more than a moving target for Congress.

Unfortunately, Google did not exist prior to the dot com boom, but had it been around, I'd bet that this comparison above would look quite similar during previous scares.

The bottom line is that investors should revisit these charts and conclusions over the coming weeks. Don't let politics lock in unnecessary losses because it takes a lot more than a government shutdown and/or a debt ceiling debate to drive the world's largest economy into a recession.

Sincerely,

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