

KEY TAKEAWAYS

Examining the number of mentions of certain buzzwords across news stories, we see a pattern of spikes that are followed by consistent declines over time.

While these buzzwords come and go, earnings and earnings guidance are near constants in news stories—as they are the ultimate drivers of equity prices.

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WORDS WITH FRIENDS

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Words matter. As investors brace for the unofficial start of the S&P 500 earnings reporting season for first quarter 2015 (see this week's *Weekly Market Commentary*, "Earnings Recession?" April 6, 2015, for details), the financial media is swirling with words and phrases like "rig count," "strong dollar," "port strike," and even "bad weather." These earnings season buzzwords come and go, and although these words change with the seasons (remember "deleveraging," "debt ceiling," "Europe," "warm weather," "drought," "Super Storm Sandy," "Obamacare," etc.), it is earnings—and earnings guidance—that ultimately drive equity prices.

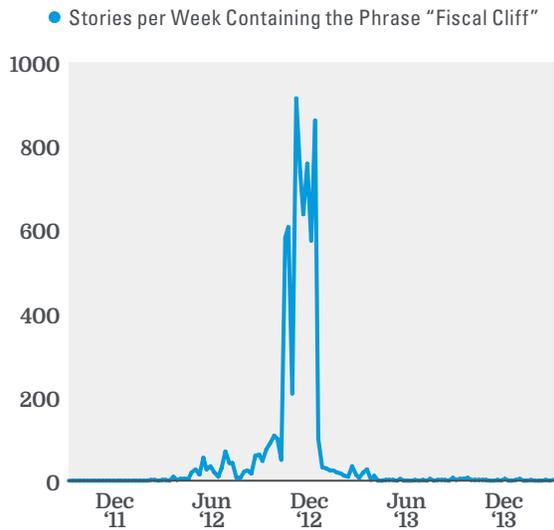
Figures 1–5 chart the number of times key phrases appear in news stories run through the Bloomberg Professional service, which include newswires such as Bloomberg News, the *New York Times*, and many other high-quality news sources. A similar exercise could be done using Yahoo! or Google news feeds.

SPIKES IN WORD COUNTS FOLLOW A PATTERN

Figure 1 charts the number of news stories per week that included the phrase "fiscal cliff" or similar words from October 1, 2011, through March 31, 2014. The words barely appeared in late 2011 through mid-2012; but the number of stories mentioning fiscal cliff spiked in the weeks leading up to, and just after, the November 2012 elections. Another spike occurred at year-end 2012 as the fiscal cliff itself approached, but once the fiscal cliff was avoided in the early days of 2013, the number of news articles with mentions of "fiscal cliff" dwindled quickly, and by April 2013, the phrase was all but forgotten. We looked at other such buzzwords (see those listed above), and for the most part, the charts of their mentions in news stories follow the same pattern as "fiscal cliff."

Figures 2, 3, and 4 chart the appearance of "rig count," "strong dollar," and "port strike" (or related words) in news stories from October 1, 2013, through April 3, 2015. For the most part, the charts of these phrases are right where "fiscal cliff" was in late 2013—peaking. **Figure 2** shows that the phrase "rig count" (referring to the number of U.S. oil rigs in operation) routinely appeared in 20 to 40 stories per week from late 2013 through late 2014. But by December 2014, the number of stories mentioning "rig count" began to move higher, as the oil price drop prompted more and more cuts to the number of rigs in operation. The first six weeks of 2015 saw a spike in mentions of rig count, and the phrase appeared in 177 stories in the

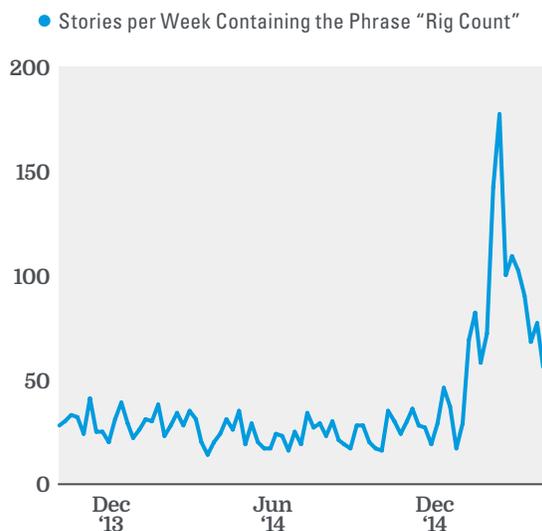
1 AFTER THE SPIKE IN LATE 2012, "FISCAL CLIFF" WAS HARDLY MENTIONED AGAIN



Source: LPL Research, Bloomberg 04/03/15

The news story count suggests that the dollar could continue to be a factor here in the second quarter and beyond.

2 MENTIONS OF "RIG COUNT" MOVED HIGHER AS OIL PRICES CONTINUED TO DROP

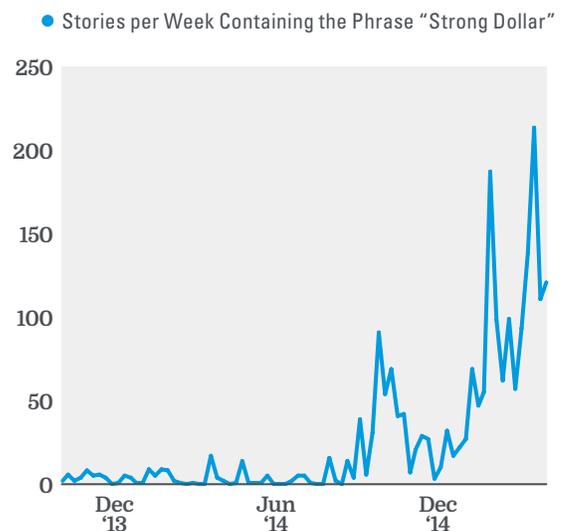


Source: LPL Research, Bloomberg 04/03/15

week ending February 13, 2015. Since then, it has been appearing in fewer and fewer stories, and in the latest week, only appeared in 56 stories. The decline suggests that perhaps the worst of the cuts to oil and natural gas–related capital spending may be behind us, although we expect sharply reduced energy production will have a major impact on both S&P 500 profits and business capital spending in the first quarter of 2015.

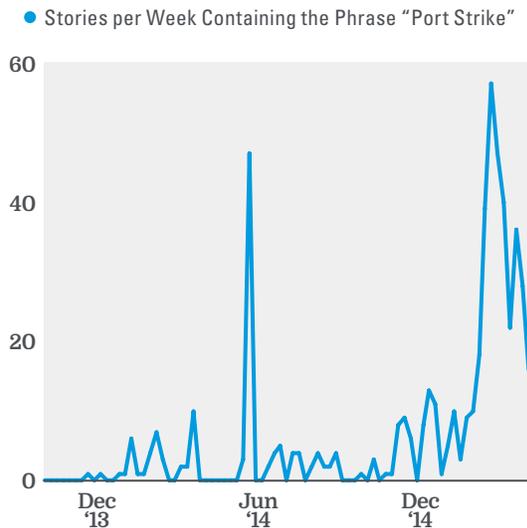
Figure 3 tracks the number of news stories in which the phrase "strong dollar" or related words appeared since October 1, 2013. We see a pattern similar to "rig count," although the minor spike in the fall of 2014 is a reminder that the strong dollar has been a theme in the economy and for corporate America for at least the past six months. The trade-weighted dollar relative to the currencies of its major trading partners bottomed out in July 2014, and has moved sharply higher since. The news story count suggests that the dollar could continue to be a factor here in the second quarter and beyond.

3 THE "STRONG DOLLAR" HAS BEEN A CONSISTENT THEME FOR THE PAST SIX MONTHS, AND MAY CONTINUE IN 2015



Source: LPL Research, Bloomberg 04/03/15

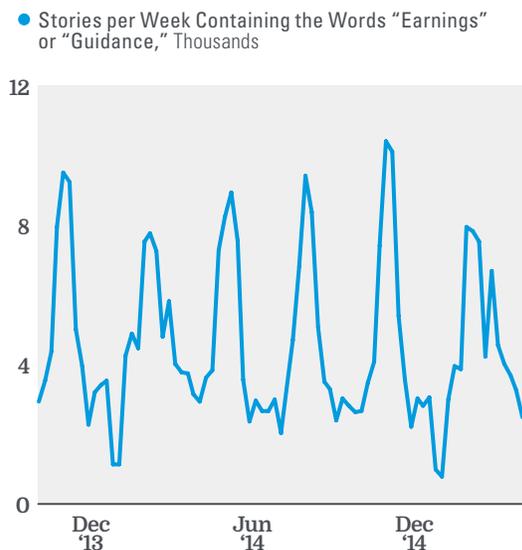
4 THE PEAK FOR "PORT STRIKE" MENTIONS OCCURRED AROUND THE TIME THE STRIKE WAS SETTLED



Source: LPL Research, Bloomberg 04/03/15

While these buzzwords come and go, earnings and earnings guidance are near constants in news stories.

5 "EARNINGS" ALWAYS A NEAR CONSTANT IN NEWS STORIES, ESPECIALLY DURING EARNINGS SEASON



Source: LPL Research, Bloomberg 04/03/15

Figure 4 tracks the number of news stories per week that the phrase "port strike" or related words appeared in since October 2013. This chart looks more similar to the "rig count" chart [Figure 2], as the peak in this phrase was in mid-February 2015, just about the time the strike was being settled. The high-frequency economic data (retail sales, merchandise trade, inventories, durable goods orders, Institute for Supply Management Manufacturing Index, etc.) have all been affected by the port strike and related work slowdowns in the ports, and the impact is likely to be felt in both the first quarter gross domestic product (GDP) data and in the upcoming first quarter 2015 earnings reporting season.

EARNINGS ALWAYS MATTER

While these buzzwords come and go, earnings and earnings guidance are near constants in news stories. Figure 5 provides a nice visual representation of the permanence of "earnings." This figure captures the number of news stories per week in which the words "earnings" or "earnings guidance" appear. One key difference between this figure and the others in this commentary is the sheer number of mentions. On average, these words appear in 6,000 news stories per week versus less than 100 stories per week for most of the other buzzwords. Also noteworthy, the number of news stories with "earnings" in them rarely dips below 2,000 per week. Finally, the smooth ebb and flow of earnings-related stories (versus the sharp spikes and quick fades for "fiscal cliff," "port strike," etc.) remind investors that earnings always matter—but during earning reporting seasons (which line up with the peaks on Figure 5), earnings matter even more. ■

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DEFINITIONS

The S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Institute for Supply Management (ISM) index is based on surveys of more than 300 manufacturing firms by the Institute of Supply Management. The ISM Manufacturing Index monitors employment, production inventories, new orders, and supplier deliveries. A composite diffusion index is created that monitors conditions in national manufacturing based on the data from these surveys.

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