

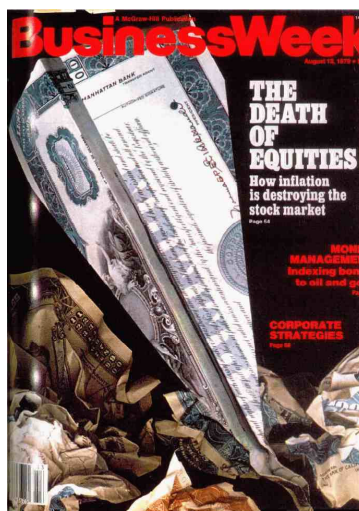
By: Brian N. Jackson, CFA, CFP®, VP and Portfolio Manager, Wealth Management Group

Each month, we look at numerous economic data points as we construct and test our overall view of the investment world. Whether it's checking the pulse of the labor market by analyzing trends in weekly jobless claims or looking at loan officer surveys to evaluate credit conditions, the economic dataflow is continuous. Sometimes, however, I like to go off the beaten path to less widely followed indicators in search of investment gems. One that I really enjoy is the Magazine Cover Indicator. This contrarian economic indicator follows the premise that once the mainstream media latches onto an idea, all the good or bad news is baked into the cake. Over the years, there have been numerous instances of mainstream magazines making bullish or bearish calls at exactly the wrong time.

For example, the September 1999 Time cover, titled "Get Rich.com," was printed just as the internet bubble was reaching fever pitch. Later that year, Time named Amazon.com's Jeff Bezos their Person of the Year. By the following March, the dot com bubble had burst, with the NASDAQ composite declining 75% over the next 18 months. Amazon.com stock fared even worse, declining 95% before bottoming. August 1979's Business Week, titled "The Death of Equities," was an incredibly ill-timed prediction as the stock market was about to embark on a multi-decade boom. Lastly, a personal favorite of mine is the June 2005 Time cover, "Home \$weet Home: Why we're going gaga over real estate." By the time the ink dried, year over year price appreciation had peaked and by June 2006, prices would start declining. Of course, magazines don't always get it wrong. That same week, the Economist ran a cover story titled "After the Fall" that showed an image of a brick labeled "house prices" falling from the sky.

Now before dismissing this indicator as statistically insignificant or mere coincidence, there is some evidence to support its validity. In 2007, professors at the University of Richmond published a study encompassing 20 years of company specific cover stories from Business Week, Fortune, and Forbes. They found that a company's future stock performance was inversely correlated with the tone of the story. Negative stories generally marked the end of poor stock performance, while positive stories often marked the end of outperformance. Nobel Prize winning economist Paul Krugman once said, "Whom the gods would destroy, they first put on the cover of Business Week." Perhaps there is some truth to that.

So next time you read a mainstream magazine and are considering following its investment advice, don't. It's probably better to do just the opposite.



*Wealth Management Group*

Unique Needs. Specific Solutions.

Wealth Management Group services provided by Heartland Financial USA, Inc. member banks.