

Understanding and Managing Noise

© Malcolm Moore
11-Dec-2003

Do you have Selective Listening?

Picture this: You are walking through a supermarket with the shopping trolley (or “trundler” if you are in New Zealand) gradually filling as you choose the items off the list and then suddenly, “Dad!”

The air crystallises around you as you see or visualise this little girl desperately calling for parental support.

Every father and many mothers in earshot go into mental alert and some are now looking at the little girl in distress. One father/brother moves or calls to the distressed girl to assure her, and the air becomes fluid again. Those that heard the call but didn't see the child are still on raised alert!

It all happens in an instant. All the background noise was blocked out and all fathers in earshot (and beyond) of the call went into alert mode, (and so did many mothers in this case).

We all have built-in mechanisms that kick in to warn us of critical situations. How is it that we can hear our family members across a crowded room? How do we quickly pick our parents out of a large crowd?

Identifying Noise

Noise is that “Shhhh” sound that some people make to eloquently shut other people up! The sound of rain on a roof, and the sound of people in appreciation, clapping after an event are also excellent examples of audio noise.

Snow on an analogue TV or pixilation on a digital TV screen is noise – visually seen. When viewed on an oscilloscope or spectrum analyser, noise looks like a snails' view of lawn grass growing!

Noise is spiky stuff, made up of an infinite number of minute little clicks and pops (Heaviside's functions¹) that each has a virtually infinite frequency spectrum.

Noise is the thing that really excites nerdy mathematicians!

Cracking Noise Codes

Like any software code cracker – as opposed to a code hacker – the first role is to send out a reconnaissance party to find out what is over the hill that is making all the noise and why! Code hackers usually start coding in random identifications and passwords in an attempt to crack a software code and if the original code development team has been particularly slack, and then the code hacker personality can get lucky.

On the other hand, code crackers step back and have a good look at the environment before racing in and set up a strategic plan of attack.

This forward planning and controlled approach inevitably is much faster than most hackers and also comes out with measurable results.

¹ <http://myreckonings.com/wordpress/2007/12/07/heavisides-operator-calculus/>

Like when getting into a warm bath it is usually wise to dip the toes or fingers in first to gauge if the water is too hot or too cold, before jumping in, it is also wise to have a clear picture of the stocks that you may be wishing to invest in, before throwing several thousand in that direction only to see it being swallowed up by a fall in the market value.

Having firstly read the news and seen the TV reports, code crackers start to get a picture of what is really out there and begin to realise that the amount of intelligence being provided comes in many forms, and in many cases a lot of the noise is belated, covered with sugar, or else blatantly misleading.

There must be more reliable news and with less noise!

Reported Stock News

How do we cut down the background noise and see what is really happening in the security / stock market?

To get started it is necessary to do some form of analysis in both camps, as the fundamental camp will tell you the information about the company, what the competition is and (most importantly) where the weaknesses are!

This can be a daunting task and most people stop here as there is a barrage of documentation including reports from all sides saying favourable things, Company Reports, Financial Reports, Broking House reports, newspapers, TV interviews, reports via Internet and chat rooms on the Internet.

It takes most people some weeks to become acquainted with many of the company trading code symbols and their associated companies, what they do and to categorise them into like-minded businesses (called 'Sectors').

The usual follow-on in this area is called 'fundamental analysis' and it is the study of the company in financial terms, and then trying to compare this to other companies.

Again, most people get lost in this area with the aid of traditional support from financial houses.

It is the lucky ones that can see past the traditional paper reading and analysis and look for other indications into whether a company is moving in positive territory.

The intelligent code cracker finds out that there are two types of noise in stock exchange land.

One type is in your face from a whole lot of other sources, and it comes out as Fundamental data, the second type of noise is not highly publicised – it is Technical data, and this is the security prices and volumes.

Radio and TV Noise Reports

Most TV transmitted stock market reports are usually positive and mention a few large traded volume stocks. Watch them closely and you will see that there are always the faithful five, and then a couple of others that for most of the time also make the faithful five.

It is like a child calling out to us and we hear the good calls most of the time. But what about the other stocks and why do we not hear of them? Noise!

Cable TV is useful as it has channels that report on the higher traded stocks in a ticker form, and it is not too hard to get a lie of the land by simply looking at the colours, and that gives a good indication of the daily or weekly trend in the market!

The problem is being too close to the action! Beware only those that they want to be mentioned will be there – the others are strangely missing! Why are the others missing?

The answer is almost too obvious! Most people have a fairly poor short-term memory and this memory needs constant reminders to keep it in touch.

Consider remembering say 500 stock trade symbols (three to 5 letter codes), their full names, what business they are in, current prices and the recent change in price – its just not on – unless if you are full time working in that area, and in that case you would not be listening to the stock reporting the news.

The news media keep it simple, positive and repetitions – after all they must be being paid big time to come out with so few stocks – and the payoff is blatant marketing to increase the number of trades on the stocks! (After all it must be the Stock Broking companies that are putting up the funds to support their ongoing survival through these advertorials.)

So now we know that not only is the news from the Stock Market biased to give positive results, but we also know that there are only a handful of stocks that are reported on and beyond that there is a gaping silence. An abyss! They have created an artificial noise floor that leaves you with a few 'feel good' stocks – the high turnover ones!

It should be very obvious that we are not being told that there are another 1500 plus other securities / stocks that are out there and of those usually about 300 of these are growing nicely, and probably at a faster rate than those on the news. Not so funny is the fact that most of the stocks that are quoted are actually 'flat lining' with no positive or negative trend!

We like parents listening to children are being subjected to selective hearing and are being trained to listen to only the five or so stocks that are selectively used as markers.

We are very rarely being told if the stock movement is caused from overnight moves (which the major ones are) and /or just how much the prices move in the day – unless we look closer and then unless we are careful, the doors are opened and we are barraged with a tremendous amount of data – which should be viewed as noise – like walking into a busy hotel / restaurant.

Broking House Noise

The study of 'fundamental analysis' is a speciality of Stock Broking houses, as this is largely a 'smoke and mirrors' scenario, as balance sheets are never done in a standard form, so it is up to many Directors to facilitate 'special meetings' with these houses to sell their companies' future promises.

This is all a bit too much for me as I broadly hold Brokers in contempt as nothing more than trading merchants with their primary objective to facilitate share trades,

and most Company Directors in a much lower contempt (if at all possible), as I view most as overpaid, out-of-date Executives that are continuing to lie.

Maybe it is good that they are all in the one pit, but not for long enough so that it could get filled over!

The noise generated by these professional thieves is thinly veiled by belated company announcements, mostly of which totally deny any knowledge of why company share prices have suddenly changed in trend.

The other belated company announcements tell of Directors dipping into the company funds through grants of shares to shore their personal futures.

Company Announcements

These are calls by companies telling what changes are happening with the ownership their stocks and of any changes in major contracts, or change of Board personnel.

The trouble is that this news is belated, and the news has actually been released to several in the know, and they have already taken preventative action by the time the news is released.

The technical data will substantiate the actions taken as the share price and volume will be the smoking ammunition.

The Internet Channel

The Internet is another excellent place for company news, as this news does not always come out from the companies, but from those that have read other documents, put one and one together, and from others watching the volumes. This will be the bunker of the future, as chat rooms will systematically manage this data.

To compound the issue, as technical analysis becomes more open, share dealings with Brokers and Client names will become available and analysed on the fly – and Company Directors and their immediate families will become under intense scrutiny – and they will become unstuck!

Technical Trade Noise

This is the other major stream of noise, and it is generated from trades, as they happen. This noise is organised into data and presented in newspapers, on TV and directly onto personal computing systems. The beauty of this noise is that it can be analysed without bias, and because computers are so good at analysing and sorting data – it goes hand in glove so to speak, making the bias caused by Brokers and Directors a non-issue.

Copyright © Malcolm Moore, 2003, 2010

[Comments and Corrections are welcome](#)