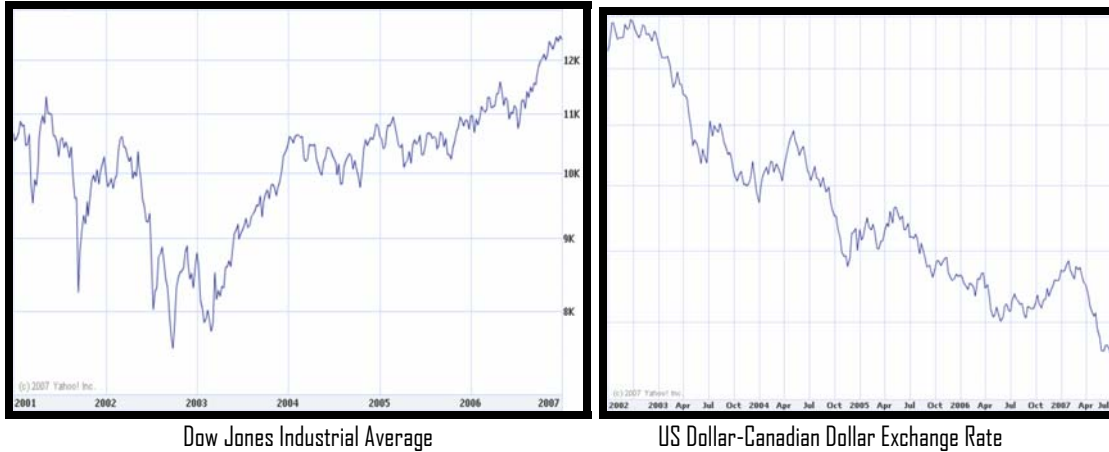


## How “Point Blindness” Dilutes the Value of Stock Market Reports

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May 9, 2008



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We thank Katherine Drake, Ramy S. Farid, Erika Franklin Fowler, Robert J. Franzese, Jacob Hacker, James D. Morrow, Spencer Piston, and Alexander Von Hagen-Jamar for helpful comments on the initial version of this draft. We thank Kelly Ogden-Schuette for research assistance.

### *Abstract*

The stock index “point” is a focal component of financial news reports. Though many reports draw attention to point changes in major indices, few people realize that the value of a stock index “point” can change dramatically. We call this perceptual phenomenon “point blindness” and explain its relevance to financial decision-making. We then argue that simple changes in media coverage can counter point blindness. These changes are easy to implement and can help many citizens draw important new inferences. An experiment on over randomly selected 2000 Americans shows that our proposed changes significantly alter public perceptions of the stock market.

Millions of Americans pay attention to US stock market news. They get this news from many sources. Print outlets, 24-hour news networks, and thousands of websites provide scores of financial reports. Many of these reports focus on the rises and falls of major stock indices. As Robert Shiller (2001:60) puts it, “Nothing beats the stock market for sheer frequency of interesting news items.”

One reason for increased attention to the stock market is a dramatic shift in responsibility for the post-work well being of American workers. Part of this shift is from employers to workers. Participation in defined benefit plans (e.g., pensions) has dropped significantly over the past two decades while participation in defined contribution plans (e.g., IRAs, 401(k)s and 403(b)s) has skyrocketed (Poterba et al 2006). A parallel shift from government to workers is also occurring due to growing doubts about the extent to which Americans can count on Social Security for retirement income. As the 2007 Annual Report of the Social Security Administration states:

“The financial condition of the Social Security and Medicare programs remains problematic; we believe their currently projected long run growth rates are not sustainable under current financing arrangements. Social Security's current annual surpluses of tax income over expenditures will soon begin to decline and then turn into rapidly growing deficits as the baby boom generation retires.... The longer we wait to address these challenges, the more limited will be the options available, the greater will be the required adjustments, and the more severe the potential detrimental economic impact on our nation.”<sup>1</sup>

Where recent generations looked to pensions or government for post-work guarantees of income, younger and middle-age workers have a different future ahead. Their future financial security is more likely to depend on their own and others’

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<sup>1</sup> Whether the federal government will sustain Social Security at current levels for future generations or cut benefits is an open question. According to the report, “Social Security could be brought into actuarial balance over the next 75 years in various ways, including an immediate increase of 16 percent in payroll tax revenues or an immediate reduction in benefits of 13 percent or some combination of the two. Ensuring that the system is solvent on a sustainable basis beyond the next 75 years would require larger changes. To the extent that changes are delayed or phased in gradually, larger adjustments in scheduled benefits and revenues would be required that would be spread over fewer generations.”

investment decisions. As a result, what people believe about the stock market matters not just to their own financial futures but also to governments and others whose assistance will be sought if scores of people make bad investment choices simultaneously. For these and other reasons, the conclusions that Americans draw from stock market news have important implications.

In what follows, we use several analytic methods to examine how a key piece of information about stock market performance is communicated through news reports and understood by citizens. The piece of information is the value of a stock index “point.” Many “business” or “finance” news segments begin with reports about the daily movements of major stock indices. The Dow Jones Industrial Average (DJIA) is usually the index described first. A common highlight of such reports is that a stock index is up or down a certain number of “points” (e.g., “the Dow was up 30 points today and the S&P was up 7”). On days when these point totals rise or fall by large amounts or reach record levels they grab headlines.

Do media reports of this kind fuel a consequential mass blindness? We argue that they do. While many reports focus people’s attention on the changing number of DJIA “points,” few, if any, offer information indicating the frequently changing value of a DJIA “point.” Hence, people perceive a DJIA point in the way that they perceive a “centimeter” or a “day” -- as a metric of constant value. We call this perceptual phenomenon *point blindness*. Point blindness can contribute to a reduced quality of life for scores of Americans if the ailment leads them to systematically misestimate stock values relative to other stores of value. It also increases the risk of new demands on government if many people make these errors simultaneously.

In what follows, we explain how the value of a DJIA point has changed in recent years, examine the extent to which this change has been reported, derive a simple palliative to counter point blindness, and evaluate the palliative using an experiment. We do this in four steps.

First, we use a thought experiment entitled “Loonies Under Your Bed” to show how point blindness, in combination with a widely-unappreciated recent drop in the value of “DJIA points,” casts the oft-reported gains of the “extended bull market of 2002-2007” in a sobering light.

Second, we examine how a leading media outlet reports stock market information. Our content analysis of *New York Times* stories during the fall of 2006, when the DJIA was reported as having broken many records, confirms that its reports do not alert readers to changes in the value of index points. The finding implies that potentially important information about the 2002-2007 dilution in the value of a DJIA point went unreported by leading media outlets. Hence, these outlets fuel point blindness amongst those persons who rely on them for financial news.

Third, we use psychological research on *diagnosticity* to argue that an alternative means of presenting stock market information can help people adapt to point blindness. The change entails a commitment to presentations that make objectively relevant fluctuations in the value of a DJIA point easier for audiences to see. We argue that these alternatives are simple to implement and can be easily understood by a mass audience.

Fourth, we offer the results of an experiment run on a nationally representative sample of over 2000 Americans in 2008. It demonstrates that simple changes in how DJIA point information is conveyed have large effects on how the public perceives the

stock market. These simple changes support our main conclusion, which is that simple changes in media coverage of the stock market can counter point blindness.

We conclude by arguing that the shift in retirement income responsibility from employers and government to workers is one of several societal factors that make recognition of point blindness important. Combating point blindness by paying greater attention to how stock market information is conveyed, and understood, is a topic in which individuals and governments have a significant long-term interest.

### ***“Loonies Under Your Bed”***

Here, we describe a thought experiment that highlights the economic significance of point blindness. The experiment can begin on any day in the years 2001 through 2005. For the sake of example, we focus on January 2, 2001, the first day in our database. Later, we will show that what we find to be true about this day is true for many others.

On the start date of the experiment, a subject is given the number of US dollars (USD) that matches the closing point total of the DJIA. On January 2, 2001, this amount is \$10,646.15. With this money, she can do one of two things.

*Option 1.* Use her USD to buy “one share of that day’s DJIA.” On January 2, 2001, such a purchase will result in her owning approximately 6.5 shares of each of the DJIA’s 30 components. The reason that “one share of the January 2, 2001 DJIA” gives her so many shares of stock is that the reported DJIA point total is the sum of the components’ listed closing prices adjusted by a divisor. The DJIA divisor is adjusted after any significant change in a DJIA component or in the index itself. Its purpose is to reduce the impact of such events on daily movements of the DJIA’s point total. On January 2,

2001, the divisor was 0.15369402, which meant that the summed cost of one share of each DJIA component was 1636.25 USD. So for 10646.15 USD, the subject can purchase 6.506432 shares of each component. To simplify the example, we assume that she pays no commissions or other transaction costs when acquiring or selling the stocks, she collects any dividends that accrue to the stocks that she holds, and she benefits from splits or similar passive benefits of stock ownership.

*Option 2.* Go to a bank and exchange 10,646.15 USD for the number of Canadian dollars (CAD) that have the same worth on that day. Again, to keep the example simple, we will assume that she does not pay any fees for the exchange. On January 2, 2001, the CAD-USD exchange rate was 1.4963, so she can obtain 15,929.83 CAD. (Later, we will bring other currencies and dates into the discussion.)

There is one additional rule. Whichever option she chooses, she must put the assets under her bed and keep them there until a pre-specified “cash out” date. Until that date, she must be a completely passive investor. For the purpose of the example, we focus on a “cash out” date of December 27, 2006 – the date on which the DJIA achieved its highest point total of any year up to and including 2006. Later, we examine the consequences for all possible “cash out” dates ranging from one year after the start date to December 31, 2006 – the last day in our database.

So, if she buys the stocks, she cannot change her investments if something better comes along and she cannot sell any of her holdings in order to buy a good or service. If a company she owns offers a choice about how to handle a dividend or proceeds from a spin-off, she experiences the consequence that comes from being passive (i.e., not

responding).<sup>2</sup> This implies that dividends can be accumulated but not invested. In short, she must put the stock certificates and any passive gains under her bed where, for the purpose of the example, we will assume they are safe.

If she takes the Canadian dollars, parallel rules apply. She cannot put the money in a bank and collect interest. She cannot reinvest it, spend it, or otherwise exchange it. The currency must go under her bed, where it will be safe.

Before choosing, note that this assumption introduces a bias that favors Option 1. Option 1 allows the subject to own shares of firms that hold assets in interest bearing accounts. Gains from the accounts can raise the firms' share prices or be transferred to investors through dividends. So, choosing Option 1 can provide interest income to the subject in a way that Option 2 cannot. We accept the asymmetry because it follows from our core assumption of investor passivity.

*What should the subject do?* Should she purchase multiple shares of thirty widely-owned icons of American industry during a period that was widely hailed as an "extended bull market" or obtain a currency that is rarely held by Americans or discussed in stock market news?

Before answering this question, we introduce a simplification. Instead of talking about US dollars and Canadian dollars, which can get confusing to people who are accustomed to thinking about "dollars" without respect to nation of origin, we will refer to the Canadian currency by its distinct nickname. In Canada, the dollar is nicknamed "the loonie." This nickname is so given because the dollar coin has loons (geese) engraved on its front.

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<sup>2</sup> For simplicity, and to be consistent with the thought experiment's set-up, we assume that the investor receives the cash value of proceeds from a spinoff rather than shares of the new company. In effect, we treat proceeds from a spinoff in the same way as dividends.



Now, consider the subject's fate if she chooses Option 1. We begin by saying a few words about how to think about the value of a stock index. On any given day, there is a strict linear relationship between USD and DJIA points.<sup>3</sup> When a report says that the DJIA gained 35 points, it means that it costs 35 USD more to buy "one share of that day's DJIA" at the end of the trading day than it did at the beginning.

On December 27, 2006, the DJIA closed at 12510.57 USD, its highest close of the year. This amount is 1864.42 points greater than the January 2, 2001 close. However, if the subject bought "one share of the DJIA" on January 2, 2001, the value of her holdings is different than 12510.57 USD. The reason is that DJIA components do not remain constant over time. Some stocks that were part of the DJIA in 2001 were not part of it in 2006. Decisions about DJIA components are made by the editors of *The Wall Street Journal*, which is owned by Dow Jones and Company. From time to time the editors replace companies that go out of existence or are not performing well with other large firms that have strong growth prospects. In the time period of our study, one set of replacements was made. On April 8, 2004, American International Group, Pfizer, and Verizon replaced the original American Telephone and Telegraph, Eastman Kodak, and International Paper on the DJIA.<sup>4</sup>

So on December 27, 2006, the value of the subject's "share of the DJIA" was 9903.57 USD. But, the subject's investment is worth more than this. When we add

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<sup>3</sup> The exception is at the moments when the divisor is changed. At such moments, which occur several times per year, there is a discrete jump from one linear dollar-points correspondence to another.

<sup>4</sup> At the time, American Telephone and Telegraph was the residual of a once larger entity. It shrank after agreeing to breakup as part of an antitrust settlement with the US Department of Justice. Several splinter companies became known as "baby bells." One "baby bell," SBC Communications, bought the remains of its former parent company in 2005. It renamed the merged entity AT&T. The new AT&T is now part of the DJIA.

passive gains (dividends received, additional shares gained from splits, and revenues coming from spinoffs), the USD value of her assets is 14023.49.<sup>5</sup>

So if she sells the stocks on December 27, 2006, she realizes a gain of 3377.34 USD. But she has to pay taxes on this gain. Since she held the assets for more than a year, the tax rate on her capital gains and dividends is 15% (assuming that the subject's total income is in the middle to upper ranges). After paying taxes, she has 13516.89 USD – *a gain of 2870.74 USD.*

Now, consider the subject's fate if she chooses Option 2, loonies under the bed. While she may rue the fact that she was not allowed to collect interest on the CAD, *she is better off than if she chose the stocks.* At December 27, 2006's exchange rate of 1.161, she can exchange her 15929.83 CAD for 13720.79 USD – *for a gain of 3074.64 USD.* Since the loonies were simply held under a bed, this gain is not taxable.

Loonies under a bed provided a better return than investing in the most widely-reported stock market index soon after the collapse of the dot-com stock bubble and selling when it achieved its record high point total of 2006. But to generate this example, we chose a specific ending date. Does the same result emerge on other “cash out” dates?

Figure 1 shows how the subject would have fared, using the calculation detailed above, after buying her assets on January 2, 2001 and selling them on any day from January 2, 2002 to December 31, 2006. When the loonie line is above the DJIA line, it means that putting loonies-under-the-bed on the noted “cash out” date provides a greater return than holding a share of the DJIA.

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<sup>5</sup> If on 1/2/01, the subject purchased 6.506432 shares of DJIA stock, the summed listing price of one share of each of the original 30 stocks on 12/27/06 was 1522.12 USD. Adding revenues accruing to shareholders from splits and spinoffs (412.28) and dividends (221.07) and multiplying by 6.506432 yields a cumulative value on 12/27/2006 of 14023.49 USD. To simplify the calculation, we assume that in the case of spinoffs the investor takes the cash value of newly offered shares.

[Figure 1 about here.]

Figure 1 reveals that the loonie line is consistently north of the post-tax DJIA line. That is, **for the subject making a choice on January 2, 2001, loonies under the bed provided a greater return on investment than did “one share of the DJIA” on every possible “cash out” date in 2002 through 2006.** Even without taxes, the same is true for almost every “cash out” date in this range.

Figure 2 extends this analysis further. There are nearly 800,000 pairs of “cash in” and “cash out” dates that occur within the years 2001-2006 and are at least one year apart. The figure depicts results of our thought experiment for every conceivable pair.

Using one year as the shortest holding period simplifies our presentation of post-tax consequences and biases the next result in favor of Option 1 (as returns from assets held for periods of less than a year can be taxed at substantially higher rates). We also assumed that the proceeds from the sale of “one share of the DJIA” would be taxed under the investment-friendly tax code revisions of May 2003 even if the “cash out” date in our analysis occurred before that date. Had we allowed shorter holding periods or calculated returns using the earlier tax rates, the post-tax returns for Option 1 would be no better and, in some cases, substantially worse.

Returning to Figure 2, red pixels depict holding periods in which loonies outperform the DJIA share. Green pixels depict the opposite. **In 97% of all holding periods (756,237/775,929) “loonies under a bed” outperform “one share of the DJIA.”**<sup>6</sup> If, by some means, the subject could avoid the taxman when her “cash out” date arrived, she would be better off with loonies under a bed on 62% (480,423/779,529) of

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<sup>6</sup> The reason that more than 3 percent of the figure appears to be red is that this image is made of far less than 800,000 pixels. Since all pixel-reducing coloration algorithms that we could have used produce a visual bias, we chose an algorithm that has a bias towards green pixels.

the possible holding periods. In reality, however, she must pay taxes. Hence, measured multiple ways, and making several assumptions that favor Option 1, we find that placing loonies—a currency to which few Americans pay attention—under a bed provided greater investment returns to investors than would buying a share of the nation’s most widely-reported stock index during a period that was widely hailed as an extended bull market of financial significance.

[Figure 2 about here.]

A parallel result holds for the Euro. Conducting an analysis that follows the procedures just described above, we find that holding “one share of the DJIA” for one year or greater during a period widely viewed as one of the longest bull markets US history consistently provided inferior returns to the alternative investment. In 86% of all holding periods of one year or greater (667,601/779529), “Euros under a bed” provided a greater post-tax return than “one share of the DJIA.”

This thought experiment’s outcome was driven by a fall in the value of the USD relative to the Euro, the CAD and numerous other leading currencies around the world. As Figure 3 shows, for example, from the beginning of 2001 to the end of 2006, the USD fell against the loonie, the Euro, and the price of an ounce of gold.

[Figure 3 Here]

So, even during the extended bull market of 2002-2007, when the DJIA was frequently reported as hitting a spectacular sequence of record highs, the value of the USD relative to other focal financial metrics declined sharply. Viewed from this perspective, the meaning of DJIA “point” increases and record highs is therefore diluted. The point metric does not provide the same information that it did before the USD’s fall.

What do these results mean to Americans?<sup>7</sup> In an increasingly global economy, Americans are increasingly likely to buy goods and services whose prices may vary with fluctuations in USD’s value (e.g., oil). At the same time, many citizens hold most of the assets that they could exchange for such goods and services in USD-denominated terms. Those assets include stocks. News reports focus attention on stock indices’ changing “point” totals. They rarely, if ever, provide any indication that the meaning of these points are changing because of their relation to USD. The reports, therefore, fuel point blindness amongst their readers. When the USD falls relative to other feasible stores of value, point blindness can inflate citizens’ perceptions of stock market values. To the extent that readers or viewers perceived stocks as valuable because widely-publicized indices were “breaking records” in the extended bull market of 2002-2007, point blindness likely led them to overvalue stocks relative to other investment vehicles and stores of value. Thus, this thought experiment shows how point blindness can skew investors’ perceptions in significant ways.

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<sup>7</sup> Consider an alternate interpretation of this result. On January 2, 2001, let the subject purchase “one share of the DJIA” for the USD equivalent of 15,929.83 CAD. Her post-tax revenue from selling these assets on December 27, 2006 would be the USD equivalent of 15,693.11 CAD. *This is 236.72 CAD less than her original investment.* Measured in CAD terms, the DJIA investor *is worse off financially* despite selling on the highest DJIA closing date of 2006. Indeed, on any day that the loonie line is north of the DJIA line in Figure 1, DJIA investors lost value when in CAD terms.

### *How the News Fuels Point Blindness: A Content Analysis*

If many people would benefit from thinking about stock market reports in ways that reflect the changing value of DJIA points, then most news reports are unhelpful. During the extended bull market of 2002-2007, news outlets produced many stories about the rise of the DJIA. They also offered many stories on the fall of the USD. However, they offered few, if any, stories that related the two topics.

July 12, 2007 was the kind of day on which we would most expect to see such a connection. On this day the USD hit a record low against the Euro and approached a multi-decade low against the loonie. On the same day, the DJIA achieved a record high. On July 14, the *New York Times* published a story that discussed the day's events. It read,

“Wall Street ended a record-setting week yesterday by surging again, sending the Standard & Poor’s 500-stock index past a trading high set in March 2000 and thrusting the Dow Jones industrial average past 13,900 for the first time. Both the S.& P. and the Dow logged record closes for the second straight day. The blue-chip index gained 295.57 points for the week...

The dollar was... still trading at a record low versus the euro and 26-year low against the British pound...”<sup>8</sup>

That this article does not link the DJIA’s record high to the USD’s lows is not an anomaly. As evidence, we report results of a content analysis of *New York Times* articles that appeared in the final quarter of 2006. We selected this time period because the DJIA achieved 21 record-high closes within it.<sup>9</sup> We selected *The New York Times* because of its

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<sup>8</sup> <http://www.nytimes.com/2007/07/14/business/14markets.html>. On July 13 and 14, 2007, the New York Times published four articles about the DJIA. Of these four articles, only the article cited in the text also mentioned the declining value of the USD.

<sup>9</sup> The search was conducted using Lexis-Nexis. The dates of the DJIA records in the last quarter of 2006: October 3, 2006 (11727.34); October 5, 2006 (11866.69); October 10, 2006 (11867.17); October 12, 2006 (11947.7); October 13, 2006 (11960.51); October 16, 2006 (11980.6); October 18, 2006 (11992.68); October 19, 2006 (12011.73); October 23, 2006 (12116.91); October 24, 2006 (12127.88); October 25, 2006 (12134.68); October 26, 2006 (12163.66); November 8, 2006 (12176.54); November 14, 2006 (12218.01); November 15, 2006 (12251.71); November 16, 2006 (12305.82); November 17, 2006

wide circulation and our belief that its reporting of the stock market is relatively sophisticated.

The sample of articles we analyzed met the following criteria: they were published in the two days following a DJIA high (e.g., for the October 5, 2006 high we included articles that were published on October 6 and October 7) and included the word “Dow” in their headline, lead paragraph or key terms. Fifty articles published over a total of 32 days met these criteria.<sup>10</sup> Table 1 gives an overview of our findings.

[Table 1 about here.]

Our analysis first considered graphics. Since graphics are often more striking than text, we analyzed the content of the graphics in all of the articles. Of the 50 articles that fit our criteria, 46 featured accompanying graphics, of which 28 focused on the changes in the number of DJIA points (the other graphics included different content such as photographs of traders). Of the 28 “point total” graphics, none provided visual stimuli that would induce any manner of thinking about changes in the value of a DJIA point.

We next analyzed text. Ten of the DJIA articles mentioned the value of the USD in the context of exchange rates. Only one article connected stock index increases to the USD’s decline -- an October 7 column by Floyd Norris. The article compares recent returns from many national stock indices. The returns are stated in USD equivalents.

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(12342.56); December 14, 2006 (12416.76); December 15, 2006 (12445.52); December 19, 2006 (12471.32); and December 27, 2006 (12510.57).

<sup>10</sup> We excluded the “Inside” and “Today in Business” features, as they simply tease inside content by providing verbatim quotes from full articles. We coded each article for the following characteristics: (1) Did the article have a graphic? (2) What did this graphic show? (3) Did the article mention the exchange rate? If so, where did this appear? (4) Did the article mention the trade deficit? If so, where in this article did this appear? (5) Did the article explain how changes in the dollar/trade deficit affect the DJIA? (6) Did the article mention the Dow being a “dollar-weighted” index? Three coders (Grafstrom, Krupnikov, and McGovern) performed the analysis. Two coders analyzed each article independently. Overall, the inter-coder reliability was 0.88.

Many nations' main stock indices are shown to outperform the DJIA. Norris (2006)

points out that his finding is based, in part, on the USD's decline.

“Most European markets are shown as being higher than they were in early 2000, but most or all of those increases reflect the fact that the moves are based on dollar performance. The CAC 40 in France, for example, is shown as being up 13 percent, but it is down almost 10 percent in euros. The gain came solely from the dollar's weakness.”

This article, which explains that nominal gains can be deceptive if one does not understand the underlying metric, is the *sole exception* to a rule. In all other cases, *Times* readers are not provided with graphics or text that would cause them to ask whether the USD's fall dilutes the implications of the DJIA record highs.

The *Times*' presentations, and that of other leading media outlets, regularly reinforce a *point blindness* that limits the informative value of their coverage to their audiences. In making this claim, we follow arguments about the difference between nominal and real asset values that academic economists have made for decades (e.g., Fisher 1928, Shafir et al 1997). Given the length of time for which such real-nominal problems have been known, one could claim this scholarship's implications should be widely understood in the DJIA context. Our content analysis reveals that *they are not*. When reporting on changes in the value of commodities, such as oil and gold, financial news outlets regularly tie price changes to variations in the USD when such ties are appropriate. But when it comes talking about US stock markets, real-nominal lessons are cast aside. As a result, the lingering problem relating to public understanding of the value of stock market indices is not with the scholarship itself, but in how media outlets forget about it when conveying stock market information to the public.<sup>11</sup>

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<sup>11</sup> Tyran (2007) offers a brief, but cogent, overview of how related forms of real-nominal confusion have been shown experimentally to affect a wide range of important economic behaviors.



### *Countering Point Blindness by Changing the News*

To this point we've shown that point blindness is consequential and is fueled by media coverage of the stock market. Now, we turn to the question of what to do about it. We argue that a simple and easy-to-implement change in media presentations of stock market information can increase the informative value of these reports to broad audiences. We begin this phase of our effort by describing the psychological phenomenon underlying point blindness. We will use this discussion to motivate our recommendation for alternative presentations of stock market information.

We begin with the premise that attention is a very scarce commodity (Simon 1955). With this premise in mind, to what kinds of stock-related information are people most likely to attend? Hirshleifer and Teoh (2003) argue that people pay attention to information that is most salient. Gabaix et al (2006) provide a more conditional argument suggesting that people pay attention to informational details that are relevant to the decision they are making and that vary across the alternatives from which they can choose. These studies posit relevance and variability as objective characteristics of information. While they explain why people would do well to pay attention to objectively salient information, they do not examine conditions under which people might fail to do so, such as in the case of stock market information.

A number of psychologists have examined such questions in greater depth. Tversky (1977) and Einhorn and Hogarth (1981), among others, use a diagnosticity criterion to explain how people allocate attention. Information is diagnostic when it allows people to distinguish between alternatives (Skov and Sherman 1986). While

similar to the notions of “salience” and “relevance” highlighted above, there is an important difference between these concepts and diagnosticity. Where the economists’ work operationalizes salience/relevance with objective determinants, diagnosticity is determined through a more subjective process.

Diagnosticity is the product of a person’s goals for seeking information, their beliefs about the information’s content and the context in which the information is presented (Einhorn and Hogarth 1981, Medin, Goldstone and Gentner 1993). ‘Context’ refers to the mode of presentation, the order of presentation, and the other information the individual is receiving at the same time. An important consideration is that changes in context can make certain details appear more or less diagnostic, even though their objective relevance remains constant. So, if people are already attending to a piece of information (e.g., reports about the total number of DJIA points), then changing the informational context can make objectively relevant details (e.g., the value of a DJIA point) more diagnostic.

To this end, Einhorn and Hogarth (1981) argue that diagnosticity is a function of available information. If a person finds a detail diagnostic when it is presented in one manner, he may not find it to be diagnostic when the information is presented in a different manner (e.g., when other available information changes). Skov and Sherman (1986) have shown that details that appear more variable are perceived to be more diagnostic than details that appear constant. So, when interpreting DJIA reports, people are more likely to focus on attributes whose presentation highlights their variability. However, empirical research on diagnosticity (e.g., Jarvenpaa (1989), Stone, Yates, and Parker (1997), and Lurie and Mason (2007)) provides a basis for thinking that alternate –

and easy to implement -- presentations of stock market information can redirect attention and counter what we call point blindness.

Recall that current news reports present DJIA information in ways that reinforce point blindness. In most reports, changes in the numerical value of the index are highlighted and stand out as a variable factor, thus increasing their diagnosticity. Such coverage directs attention to changes in the number of DJIA points, but directs no attention to objectively relevant changes in the meaning of a DJIA point.

We contend that alternate presentational strategies can make variations in the value of DJIA points diagnostic. For example, reporting DJIA closing values in non-USD terms can lead viewers or readers to draw inferences such as “at time T, the DJIA was up xx% when measured in US dollars but was down yy% when measured in Euros.” Even if the alternate currency is not one that a viewer encounters daily, the presentation of stock index information using a measure of value that others find credible (e.g., Euros and gold prices, but not seashells) may prompt viewers to think about the extent to which index points as currently reported should really be treated as metrics of unchanging value. We contend that this kind of report can convert audiences who simply hear “up” claims in stock index reports as “(absolute and unconditional) up” into audiences who subsequently think “*up with respect to what?*” Such inferences can help people develop more sophisticated views of what stock index changes mean to them.

The extent to which such simple changes in media reports affect audience perceptions of stock values will depend on how they interpret the new information. Studies of diagnosticity suggest these effects will be moderated by variations in the audience’s existing knowledge of the topic (Kardes, Kim and Lim 1994; Rao and Monroe

1988). In the case of stock markets, individuals with a basic understanding of the evaluative implications of currency fluctuations will draw different inferences from stock market reports that highlight such information than will individuals who lack such an understanding.

To evaluate the hypothesis that simple changes in the content of presentations about stock index values can lead people to view the stock market differently, as well as the related hypothesis that the magnitude of such effects will depend on relevant prior knowledge, we conducted an experiment on a large random sample of American adults. Because we do not observe individuals' prior knowledge directly, we use education levels as a proxy in what follows.

### ***An Experiment on the Impact of Our Proposed Alternative***

We conducted an experiment to evaluate whether alternate presentations of stock index information can affect public opinions of the stock market. We embedded the experiment in a survey. The survey was conducted by Knowledge Networks between February 13 and 26, 2008. Knowledge Networks (henceforth, KN) uses random digit dialing techniques, callback strategies, and incentives to initiate and sustain contact with a nationally representative Internet panel of American citizens aged eighteen and above. The subjects in our study constitute a randomly selected subset of the KN panel and approximate a random sample of the U.S. adult population. Our survey was assigned to 3,059 KN panelists. Of those, 2,039 (66.6%) completed the study.<sup>12</sup>

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<sup>12</sup> The average subject completed the survey in 5.34 minutes. This estimate is the average time taken by the 1989 subjects who took less than one hour to complete the survey. The manner in which the survey was administered allowed subjects to begin the survey, leave to do something else, and return to complete the survey at a later time. We believe that this was the case for our other 50 subjects. Fourteen subjects

The experiment began with all subjects answering a multiple-choice question. The question was: “What does the Dow Jones Industrial Average measure? The number of people who work for the Dow Jones company, the value of the stocks of major American companies, [or] the height of buildings used in industrial production.” Over ninety-eight percent of subjects answered this question correctly. After being asked this question, all subjects were shown the correct answer. The purpose of this question was to document subjects’ abilities to understand the content of our experimental stimuli and to provide a needed definition to subjects who did not answer the question correctly.<sup>13</sup>

We then randomly assigned the 2039 subjects into one of eight experimental groups. One group, henceforth known as the control group, received no information about stock indices. All other subjects received information about the performance of the DJIA in the year 2007 (a.k.a., the stimulus). The only factor distinguishing the seven treatment groups was the manner in which we conveyed this information. Figure 4 provides a visual representation of the experimental design.

[Figure 4 about here.]

One treatment group received this news in a conventional way – the DJIA’s performance was simply stated in USD terms. The phrase

**“In the year 2007, the value of the Dow Jones Industrial Average *increased by 6%* when measured in U.S. Dollars.”**

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completed the survey in more than one, but less than twelve hours. Nine subjects completed the survey in more than twelve but less than twenty-four hours. Twenty-seven subjects completed the survey in over twenty four hours. Counting all of these subjects, the average time used to take the survey was 70.39 minutes.

<sup>13</sup> For subjects who were in one of the two treatment groups that received DJIA information in Euro terms, a second trivia question was asked to serve a parallel purpose. The question was “The Euro is the name of the currency of: “the United Kingdom,” “15 of the 27 member countries of the European Union,” or “Japan?”” 83 percent of subjects who were asked this question answered it correctly. After answering the question, all subjects were shown the correct answer.

appeared in the center of their screen for five seconds -- at which point the subject was given the option to advance to the next screen.

Three other treatment groups saw one of the following phrases under conditions identical to those just described:

**“In the year 2007, the value of the Dow Jones Industrial Average *decreased by 4%* when measured in Euros.”**

**“In the year 2007, the value of the Dow Jones Industrial Average *decreased by 9%* when measured in Canadian Dollars.”**

**“In the year 2007, the value of the Dow Jones Industrial Average *decreased by 19%* when measured relative to the price of an ounce of Gold.”**

We refer to these three treatment groups collectively as “the single-currency treatments.”

The three remaining treatment groups received *two* pieces of information in the center of the screen. The first piece of information for all three groups was the USD-denominated DJIA claim described above. The second piece of information was one of the three non-USD denominated DJIA claims (EURO, CAD, or Gold) listed above. We refer to these three treatment groups collectively as “the double-currency treatments.”<sup>14</sup> With this design in mind, it is important to note that no subjects were deceived in this experiment. While we manipulated the presentation of information across treatment groups, every claim about the DJIA is factually accurate (with percentages rounded).

After providing the stimulus, we asked all subjects who were exposed to a stimulus (everyone except control group subjects): “Given what you have just read, would you say that in the year 2007, the stock market performed “much better than you believed prior to starting this survey”, “somewhat better than you believed prior to starting this survey”, “the same as you believed prior to starting this survey”, “somewhat

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<sup>14</sup> The number of subjects in each group is as follows: control, 266; USD only, 255; Euro only, 263; CAD only, 242; Gold only, 252; USD & Euro, 253; USD & CAD, 253; USD & Gold, 255.

worse than you believed prior to starting this survey”, [or] “much worse than you believed prior to starting this survey.” In what follows, we simplify the presentation by using the “worse” responses as summary statistics for experimental effects generally. Our results would be parallel had we focused instead on “better” responses.

Figure 5 provides depicts subjects’ responses within the single currency treatments as compared with the USD group. To demonstrate the effect of education on the experiment, we display these effects first for all subjects and then by whether or not subjects completed high school. Subjects who did not complete high school are categorized as “low” in education; all others are categorized as “high” in education.

[Figure 5 about here.]

Figure 5 focuses on the percentage of subjects for whom exposure to the stimulus made them feel “worse” about the DJIA in 2007. For the population of subjects considered as a whole, those who received this information in the conventional way (in USD terms) twenty percent reported that this report made them feel worse about the stock market.<sup>15</sup>

People who viewed DJIA information in non-USD terms saw matters differently. Their judgments about the Dow were harsh. For the sample as a whole, when DJIA information for 2007 was presented in non-USD terms, over 40% of subjects in the single-currency treatments thought worse of the stock market’s performance. The difference between the USD and non-USD groups was particularly severe for better

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<sup>15</sup> By contrast, over twenty eight percent said that this news made them feel better about the stock market. The fact that this USD-based description of the 2007 DJIA makes our subjects feel better on balance suggests that at the time we conducted this survey the average person believed that the DJIA performed worse in 2007 than it actually had when performance is measured in USD terms. For people who are blind to the fact that a DJIA point value declined in 2007, the “news” contained in our stimulus is interpreted as good.

educated respondents as the right-hand side panels of the figures demonstrate. In other words, for subjects with a high school education or greater a single brief exposure to a non-USD delineated DJIA performance report doubled the percentage of subjects who responded that the stock market performed worse than they thought. For each of the three single-currency treatment groups, the difference between them and the USD group is statistically significant at the .001 level.<sup>16</sup>

So, in a year where the decline in the value of the USD dragged down the value of a DJIA point relative to other value metrics, conveying stock index information in a manner designed to counter point blindness led a substantial number of people to adopt a very sobering view of the US stock market's most famous indicator. In this respect, our result follows that of Sausgruber and Tyran (2005) who use experiments to show that subjects can, given proper feedback, learn to adapt to a real-nominal blindness associated with indirect taxation.

To be sure, our results were driven by the fact that in 2007, the DJIA “went up” when measured in USD and “went down” when measured in other currencies. However, the mere fact of having the report offered in an alternate currency can lead audiences to realize that USD are not the only possible evaluative metric for such assets and can change the inference that they draw from the report. What this kind of report can do, and did for better educated persons in our experiment, is convert them from readers who simply hear “up” as “(absolute and unconditional) up” to readers who now think “up *with respect to what?*” Such inferences can help people develop different, and more sophisticated, views of what stock index changes mean to them.

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<sup>16</sup> At the same time, fewer than ten percent of subjects in the single-currency groups responded that the news that we presented to them made them feel better about the DJIA's performance (this compares to nearly 30% for the USD group).



In some cases, however, it will not be practical for a media outlet to produce a story that frames stock index performance only in a non-USD currency. It remains to determine whether reports that contain both a USD-based report of a stock index along with a non-USD based presentation can counter point blindness. To examine this matter, we turn to an evaluation of the double-currency groups. Figure 6 depicts subjects' reactions relative to the US Dollar group. Again, we display results by education levels.

[Figure 6 about here.]

These results mirror the results from the single currency treatments: people who receive information in other currencies rather than just the US Dollar make different evaluations. Considering the subject population as a whole, the direction of the effects is the same as described above.

Our results are also consistent with the notion that the information presented will be increasingly diagnostic for those who are better educated – our treatments have larger effects on subjects who completed high school. For subjects who did not finish high school, the exposure to stock information in non-USD terms produces no clear pattern of results. In sum, our alternate modes of presentation are consistently diagnostic for subjects with a high school education or better. That said, it is worth remembering these results are the product of *a single exposure* to a stimulus that may be as brief as five seconds long. There is no announcer or accompanying text that puts the two sentences into context. As such verbal or textual reinforcements often accompany the presentation of DJIA information, ours is *a conservative test* of the proposition that alternate presentations of stock index information can counter point blindness.

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<sup>18</sup> Among reserves whose denomination is determined; see <http://www.imf.org/external/np/sta/cofer/eng/cofer.pdf>.

To further document whether alternate presentation strategies affect public opinion about the stock market, we asked all subjects the following question, “How would you rate the overall condition of the stock market in the year 2007?” Subjects could respond “Very Good”, “Somewhat Good”, “Neither Good nor Bad”, “Somewhat Bad”, [or] “Very Bad.” Figure 7 depicts these results for the single-currency (7a) and double-currency treatment groups (7b), respectively. It highlights the percentage of subjects in each group who responded “somewhat bad” or “very bad” to the question.

[Figures 7a and 7b about here.]

The first thing to notice in Figure 7a is the relationship between the USD group and the control group. In the subject population as a whole, roughly 40% of the control group subjects, who received no information about the 2007 stock market, described its condition as bad. Of the subjects who had earlier been reminded that the DJIA actually increased in value, when measured in USD, in 2007, 34% described the stock market’s condition as being bad. The difference between this group and the control group suggests that without prompting, citizens in February of 2008 (a bad time for the Dow) remembered the DJIA’s 2007 performance as being worse than it actually was.

Considering the subject population as a whole, over 50% of single-currency treatment group subjects described the stock market’s condition as some form of “bad.” So subjects in the single-currency treatment groups graded the stock market’s health as significantly worse than those who were told about DJIA performance in USD terms. However, as Figure 7a reveals, these differences are particularly stark for those individuals with high levels of education.

For the subject population as a whole, the results from the double-currency treatments are in the same direction as the single-currency results. As Figure 7b also subjects with higher levels of education respond more strongly to the treatment. Considered altogether, the results from Figures 5-7 suggest that even a single brief exposure to DJIA information presented in non-USD terms can change how Americans evaluate the stock market.

Such inferences can help people develop different, and more sophisticated views, of what stock index changes mean to them. For example, Modigliani and Cohn (1979) argued that investors who fail to adjust long-term expectations about expected growth to variations in inflation would undervalue stocks when inflation is high and undervalue them when inflation is low (also see Cohen, Polk, and Vuolteenaho (2005)). Here, we argue that point blindness, whose causes need not be tied to inflation, can have similar negative consequences for investors. It can cause them to undervalue stocks and stock indices whose values are USD-denominated when the USD is rising against other plausible stores of value and it can lead investors to overvalue stocks and stock indices when the USD falls. Therefore, simple changes in the way that stock information is conveyed can help people adjust their expectations in ways that can protect them from suboptimal investment decisions that may arise as a consequence of unchallenged point blindness.

### ***Which Currency Should News Reports Use?***

Having established that alternate presentation of stock market information can affect citizens' opinions, the question becomes which alternative presentation to make. In our view, the answer to this question depends on the audience. The audience must

understand alternative currencies to be credible evaluative metrics. Given contemporary circumstances, it is likely that many outlets will provide their audiences with the greatest service by presenting stock index information in Euro terms.

Over the period of our thought experiment (2001-2007), the credibility of Euro-as-reserve-currency increased. In the first quarter of 2001, for example, 72.3% of the world's reserve currency was held in USD according to International Monetary Fund estimates.<sup>18</sup> By the fourth quarter of 2006, this amount fell to 64.6%. Taking up the slack was the Euro. In the first quarter of 2001, 17.7% of the world's reserve was Euro-denominated. By the fourth quarter of 2006, this amount grew to 25.9%. From 2001 to 2006, the 7.7 percentage point fall in the USD share of the world's reserve currency was more than matched by the Euro's 8.2 percentage point increase.

This trend is likely to continue. To see why, note that the requirements of a reserve currency are that it be used by a large economy with deep and open financial markets, low inflation, and confidence in its value. The Euro has increasingly satisfied these requirements. The Euro-zone economy (the economies of the 12 European Union members that adopted the Euro instead of their own national currencies in 1999 and 2001) is large. In 2006, its economy was approximately 4/5 the size of the US economy and accounted for over 22% of Gross World Product.<sup>19</sup> Moreover, the Eurozone also has increasingly deep and liquid financial markets (Chinn and Frankel 2006). As for confidence, it is noteworthy that the Euro-zone economy ran trade surpluses in five of the six years between 2001 and 2006 (see Table 2). So the Euro does not face the same trade-deficit-driven pressures on demand as did the USD in the era on which we focused.

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<sup>19</sup>[http://epp.eurostat.ec.europa.eu/portal/page?\\_pageid=1996,39140985&\\_dad=portal&\\_schema=PORTAL&screen=detailref&language=en&product=Yearlies\\_new\\_economy&root=Yearlies\\_new\\_economy/B/B1/B11/daa10000](http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,39140985&_dad=portal&_schema=PORTAL&screen=detailref&language=en&product=Yearlies_new_economy&root=Yearlies_new_economy/B/B1/B11/daa10000).

With this information in hand, the question becomes – why should stating stock prices in Euros matter to Americans? Our response is that Americans do not have to travel to other countries to have the value of the Euro affect the value of their wealth and the cost of goods they regularly consume. Given the increasing emergence of a globally integrated economy, fluctuations in the value of the USD, and hence stock index points, relative to the Euro comes to them through a range of purchases that they make at home.

Consider, for example, that during the extended bull market from 2002-2007, the USD fell dramatically against the Euro. While it is true that dilution of an evaluative metric often suggests inflation, inflation cannot be the whole story here, for if people had simply changed their USD for loonies, Euros, gold or any of dozens of other currencies in the early years of the 21<sup>st</sup> century, domestic price increases would not have affected them as much. They could have exchanged a smaller proportion of their assets when acquiring an increasing range of goods and services whose prices were not immune to the USD's decline.

Focusing solely on inflation ignores the crucial reality that Americans need not hold USD-anchored assets. People can hold assets whose values are tied to other currencies, but many tend not to choose optimal levels of international diversification due to an implicit bias in favor of domestic equities and currencies (see, e.g., Levy and Sarnat 1970, Lewis 1999). To hedge against USD declines, people may wish to hold assets whose values are less tied to that of the USD. But for people to consider international diversification more seriously, they require certain kinds of information. One way to make the benefits and costs of such diversification diagnostic is for the media to offer information about stock indices in ways do not reinforce “point blindness.”

People who see the USD, and related metrics such as DJIA points, as if they constituted the one planet around which the rest of the economic solar system revolves would benefit from rethinking such views. They can benefit by adjusting fundamental assumptions about the extent to which points constitute a constant measure of value as they plan their own financial futures.

### *Conclusion*

During what was reported as an extended bull market from 2002-2007, the DJIA's value, as well as that of the Standard & Poor's 500, soared to new heights -- when measured in "points." At the same time, the USD fell precipitously against many relevant measures, dragging the real economic value of stock index "points" down as well.

We demonstrate that changes in perspective can come from slight alterations to traditional presentations of financial news. Such alterations can make objectively relevant attributes of stock market reports more diagnostic to readers. We recommend that news outlets that offer daily reports about the DJIA and other indices regularly report their value in terms of other focal assets.

Such presentations will offer citizens the ability to draw new inferences from everyday financial news. These inferences, in turn, can lead them to make better choices regarding personal finance and ask better questions about the extent to which their plans are affected by government fiscal and monetary policies. For citizens who are willing to spend more time thinking about such matters, stock value presentations offered in currencies other than USD can also provide important clues to citizens about the extent to

which their investments are tied to the fate of a particular currency and may encourage some investors not only to diversify across asset classes but also across currencies as a hedge against unwelcome variations in any single currency. Even though Americans make nearly all of their purchases in a single currency, the modern economy is such that they need not store all of their assets in savings or investment vehicles whose values are tied to that currency.

One way to alert people to such possibilities is to offer information about common investment vehicles in ways that counter “point blindness.” People who have such knowledge are less likely to be negatively affected by knowable threats to their financial futures. As an increasing number of Americans now bear greater risks in planning for their financial futures (Hacker 2006), it is important to try to reduce such negative consequences when possible. To that end, we have shown that small changes in the emphasis and content of stock market reports can lead people to pay more attention to the changing meaning of DJIA points which can, in turn, improve their understanding of focal economic phenomena.

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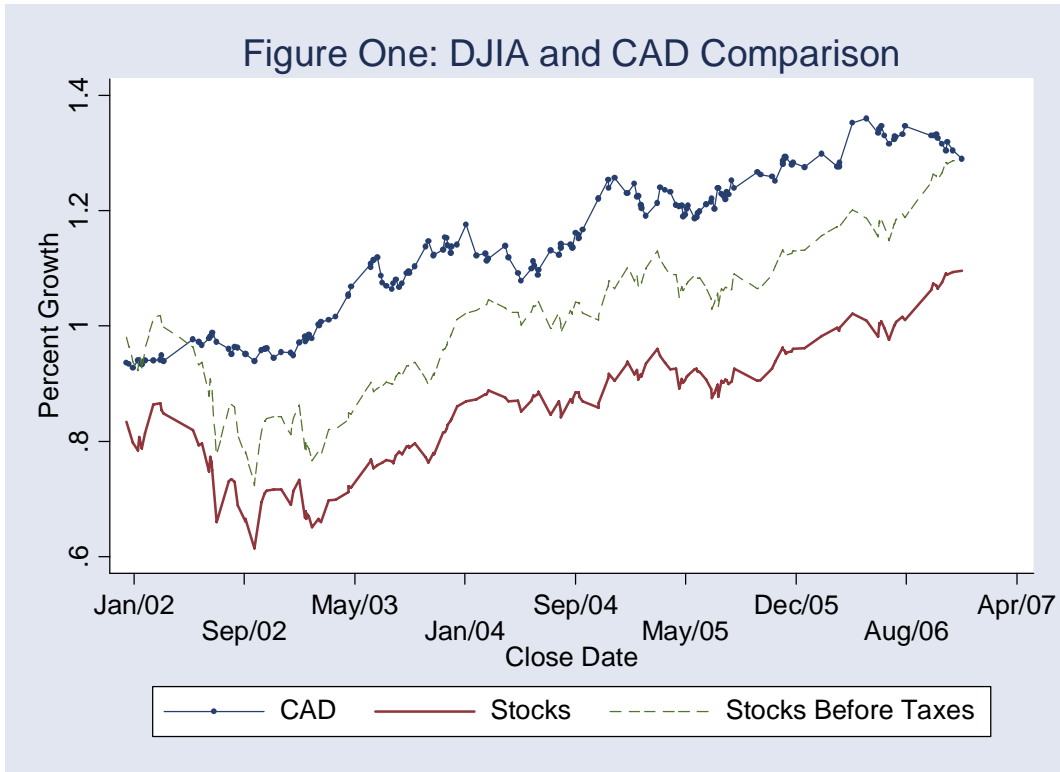
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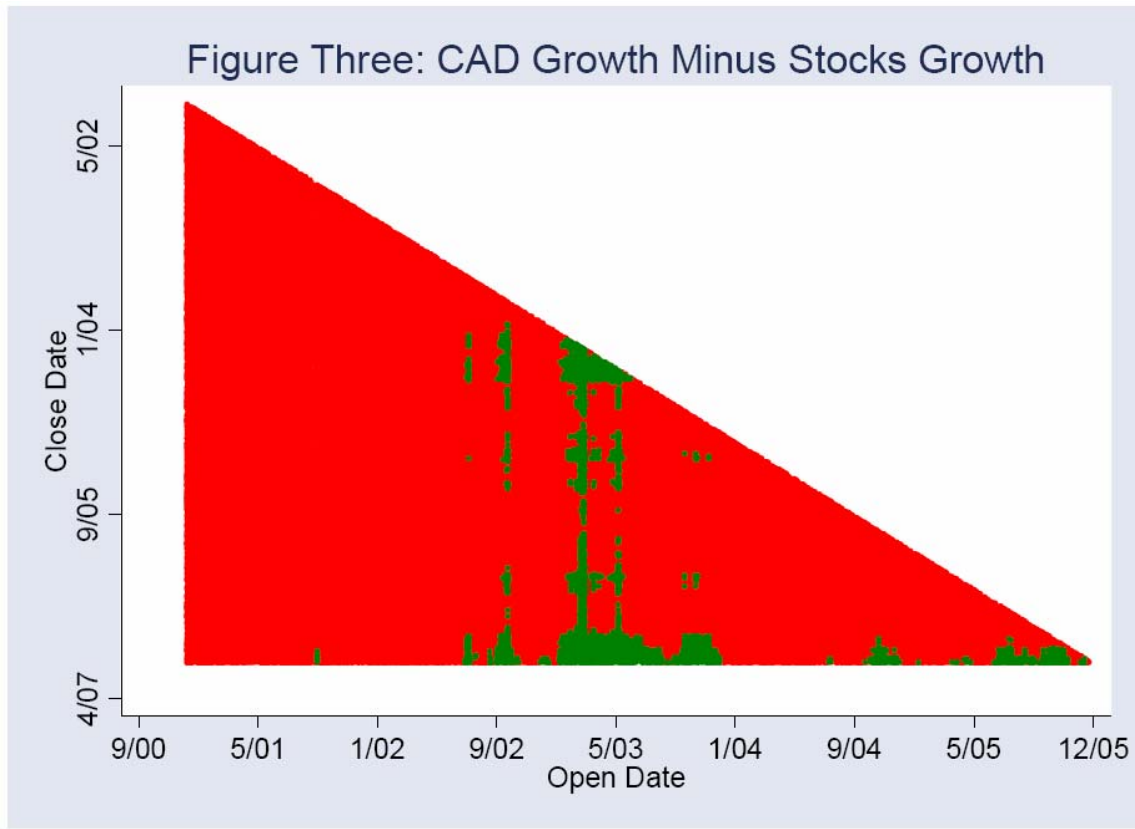
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**Table 1. Outcome of Content Analysis**

	Yes	No	Total Number of applicable articles:
<b>GRAPHICS</b>			
Does the article have a graphic?	<b>47</b>	<b>3</b>	<b>50</b>
If so, does the graphic have DJIA content?	<b>28</b>	<b>19</b>	<b>47</b>
If so, does the graphic show fluctuations in the DJIA as a function of exchange rates?	<b>0</b>	<b>28</b>	<b>28</b>
<b>FOCAL CONTENT</b>			
Does the article mention the exchange rate?	<b>10</b>	<b>40</b>	<b>50</b>
If so, does it link a USD exchange rate to the DJIA?	<b>1</b>	<b>9</b>	<b>10</b>
<b>Number of all articles linking a USD exchange rate to the DJIA.</b>	<b>1</b>	<b>49</b>	<b>50</b>



**Figure 1. Returns from Loonies Under a Bed and One Share of the DJIA Assuming a Purchase Date of January 2, 2001.**

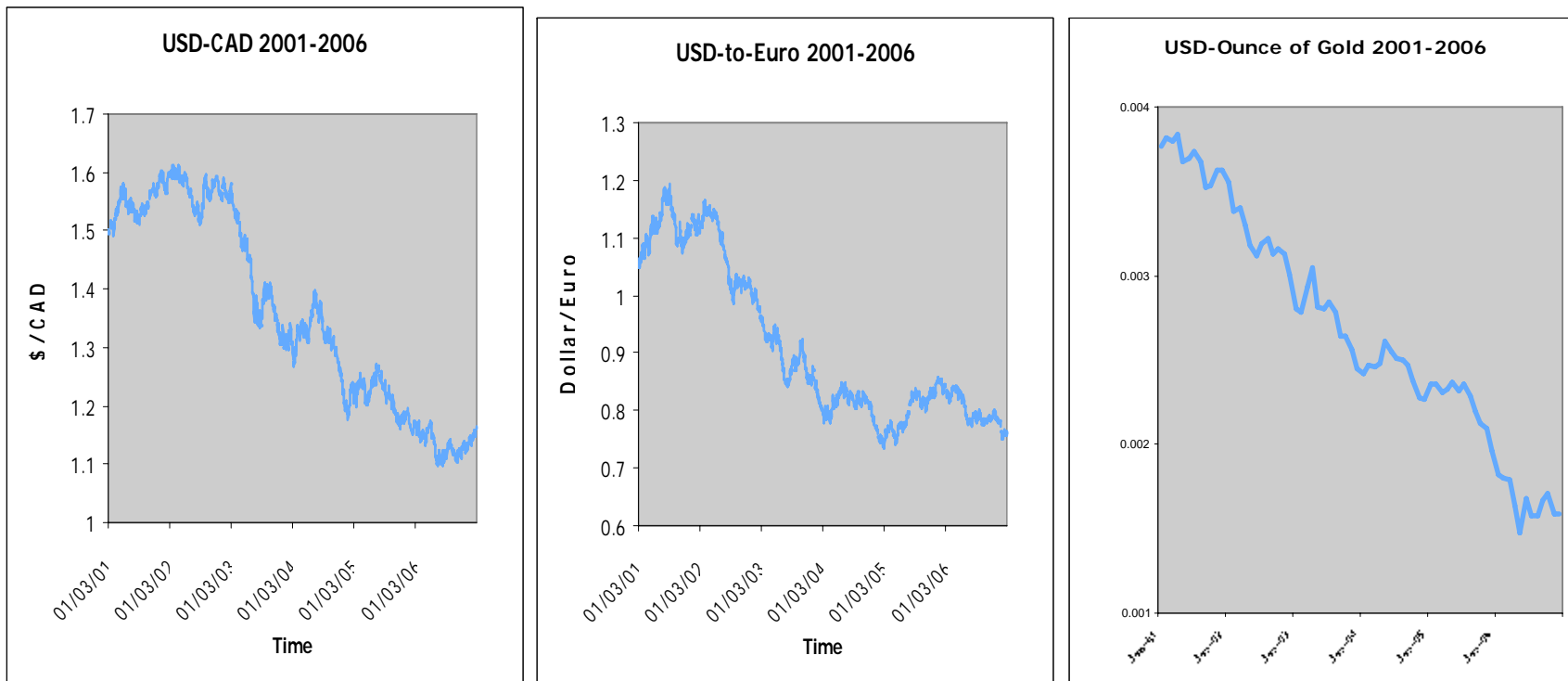


**RED** pixels: CAD return beats “one share of the DJIA” return.

**Green** pixels: “one share of the DJIA” return beats CAD return.

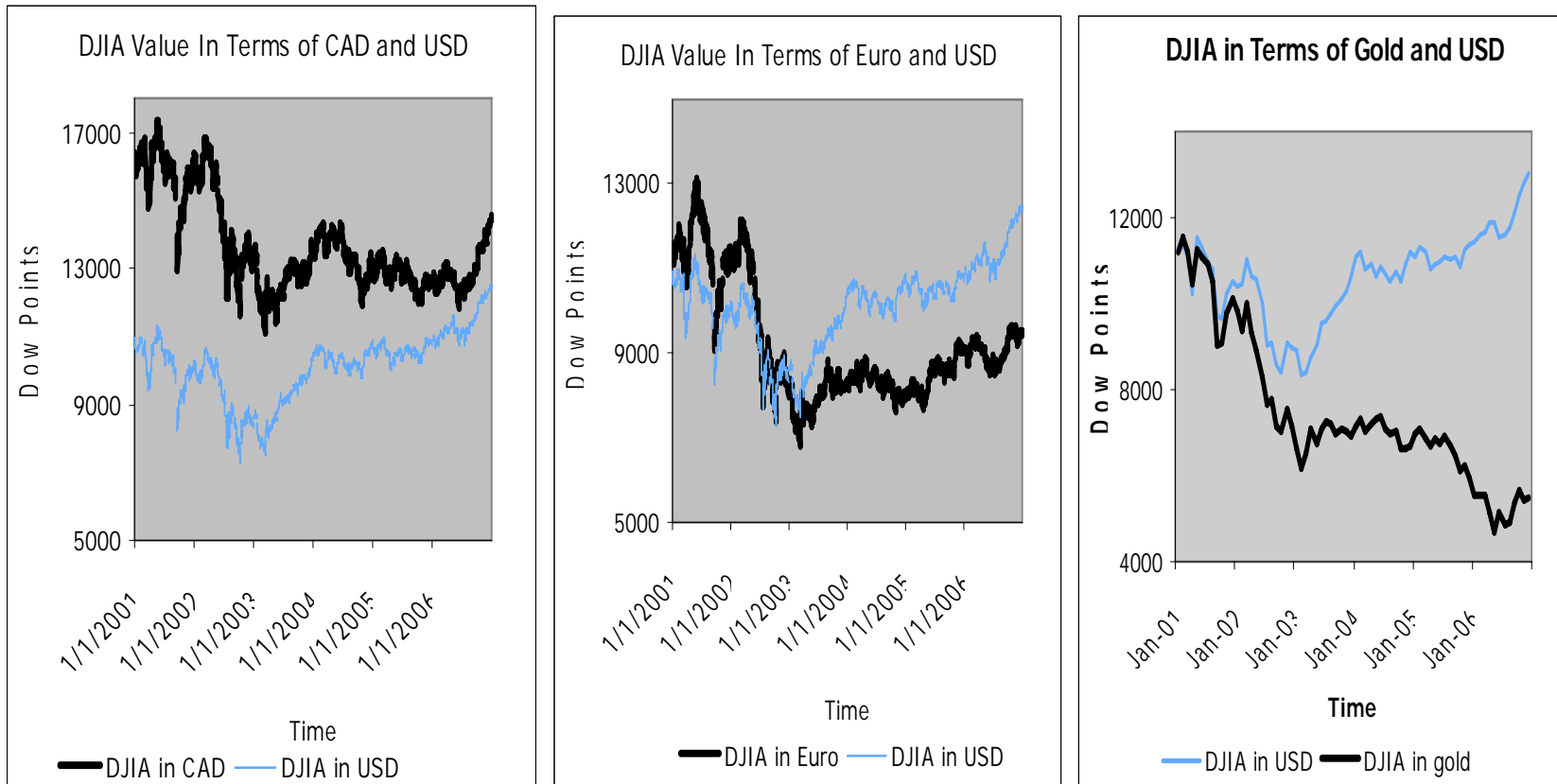
**Horizontal axis includes all purchase dates 1/2/01 to 12/31/05 (left-to-right).  
Vertical axis contains all “cash in” dates 1/1/02 to 12/31/06 (top-to-bottom).  
Post-tax returns compared.**

**Figure 2. Returns from Options 1 and 2 for all possible holding periods of one year or greater, 2001-2006.**



CAD and Euro comparisons use daily closing prices. Gold comparison uses the monthly average London Gold Fix the associated DJIA statistic.

**Figure 3a. Decline of USD relative to CAD, Euro, and Gold**



DJIA-Gold values are computed as follows. We begin by taking the number of USD that equals the average DJIA closing point total for January 2001. This is 11216.88 USD. Then, using the monthly average London Gold Fix, we compute the amount of Gold (42.25 Troy ounces) that the same number of USD can buy on that day. These amounts become the bases for the respective panels. The panels then show the amount of gold that a subsequent day's reported DJIA point total can purchase relative to the amount that the DJIA could buy in January of 2001. CAD and Euro comparisons use daily closing prices.

**Figure 3b. DJIA value relative to CAD, Euro, and Gold with Emphasis on the Extended Bull Market Era, 2001-2006.**

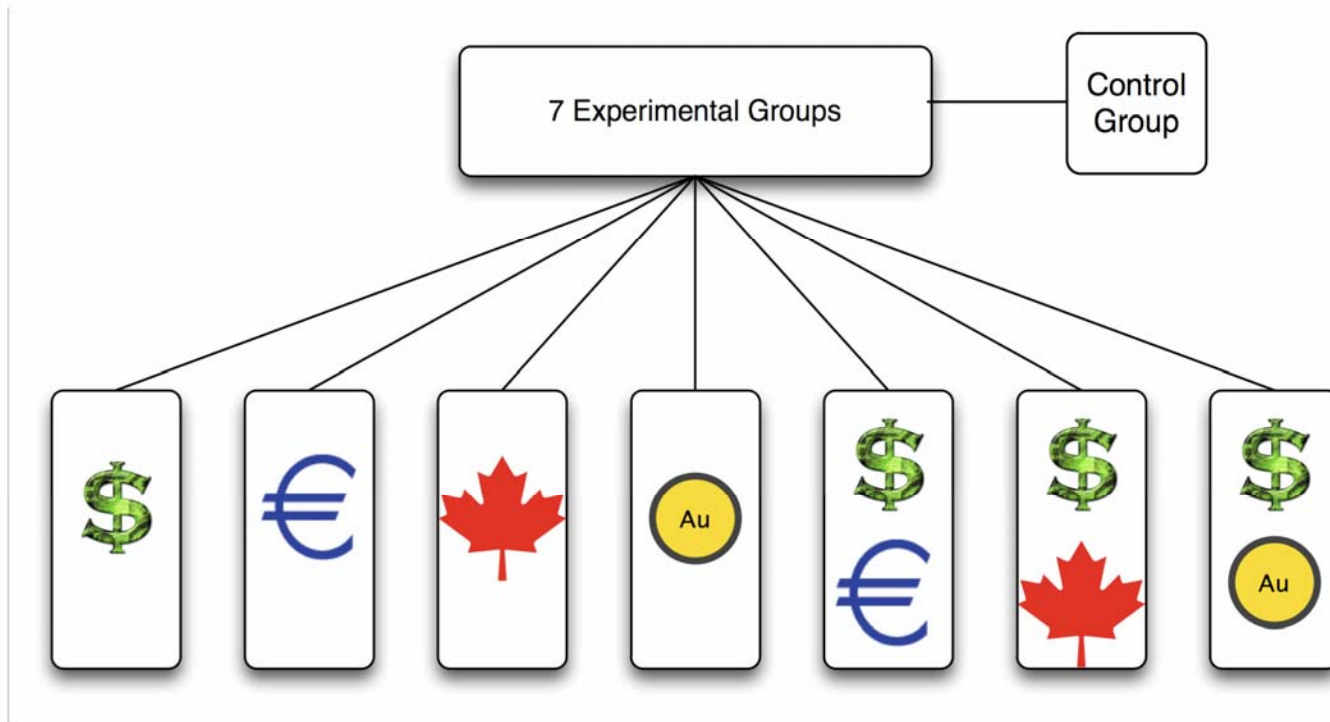
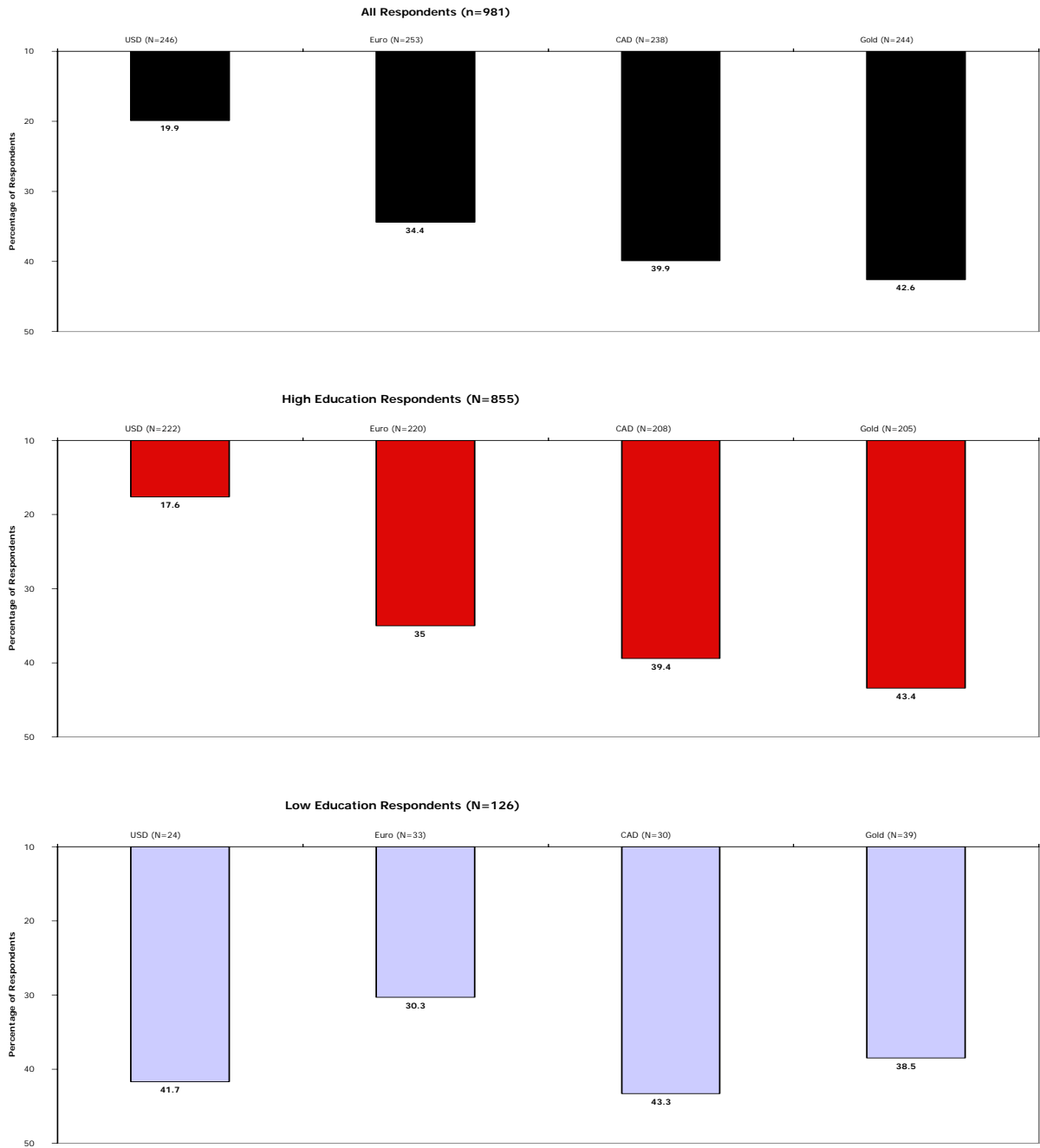
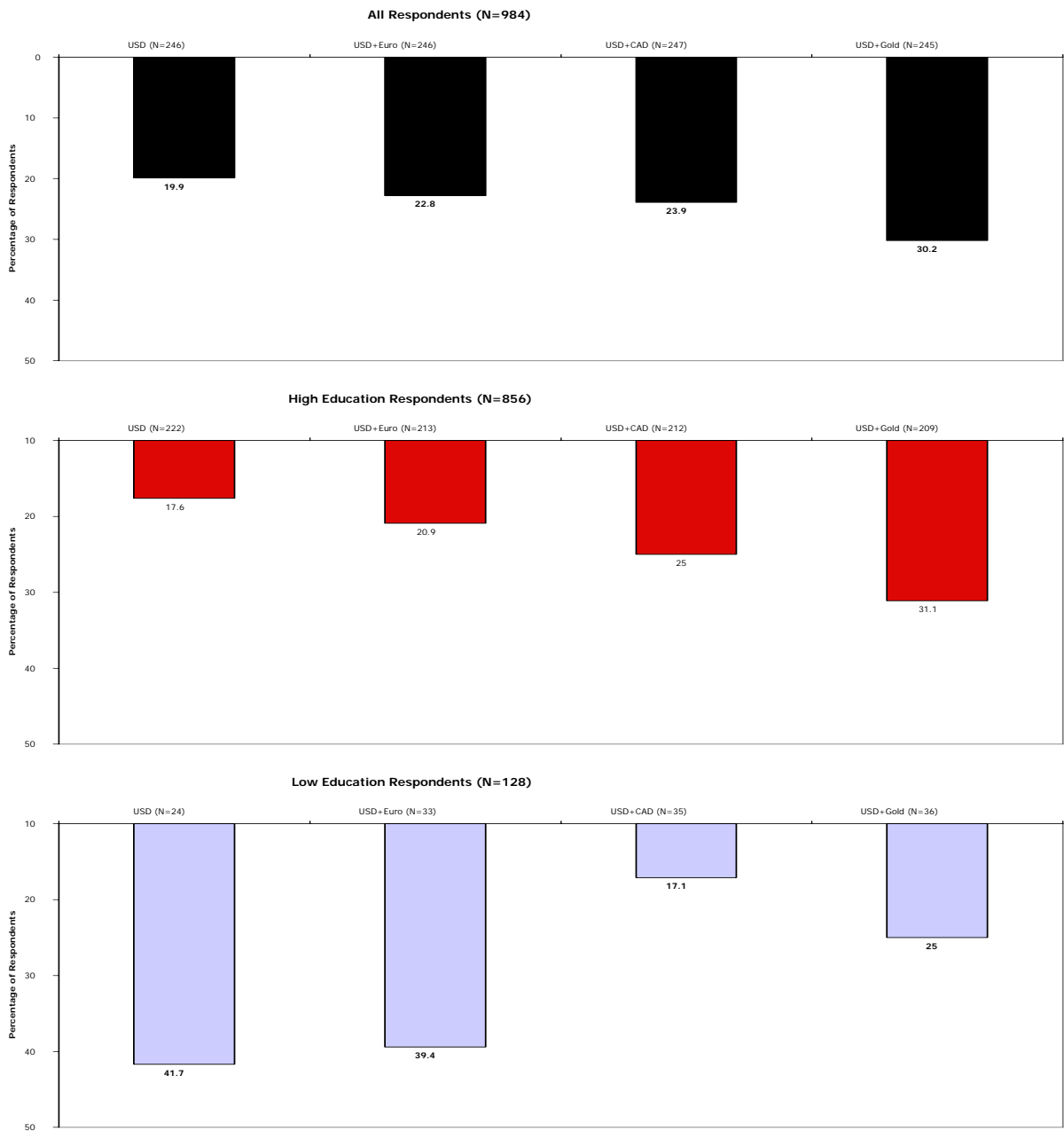


Figure 4. Experimental Design. Each subject equally likely to be assigned to a control group or one of the pictured treatment groups.

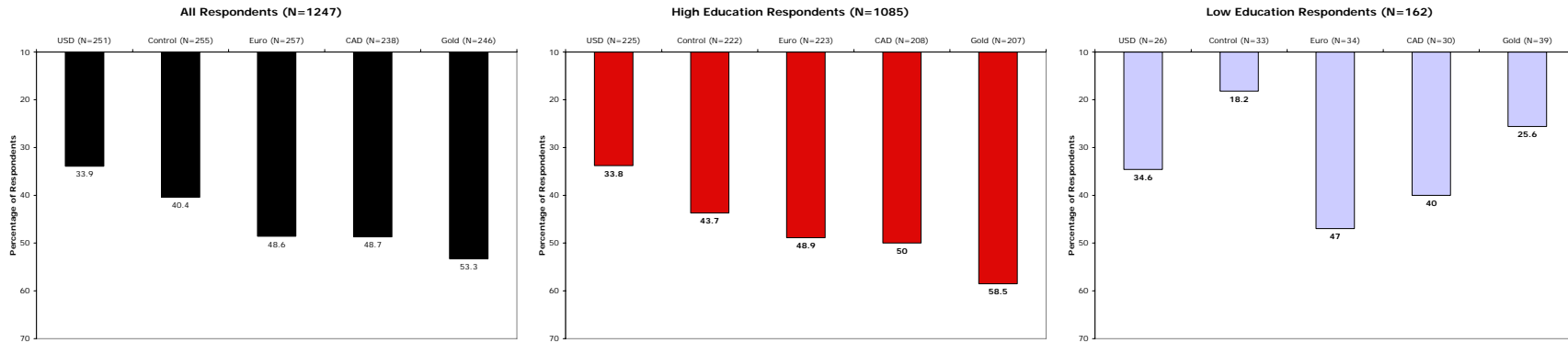


**Figure 5. Percent of subjects who responded “somewhat worse” or “much worse” to “given what you have just read” question after observing DJIA information USD, CAD, Euros or Gold.**

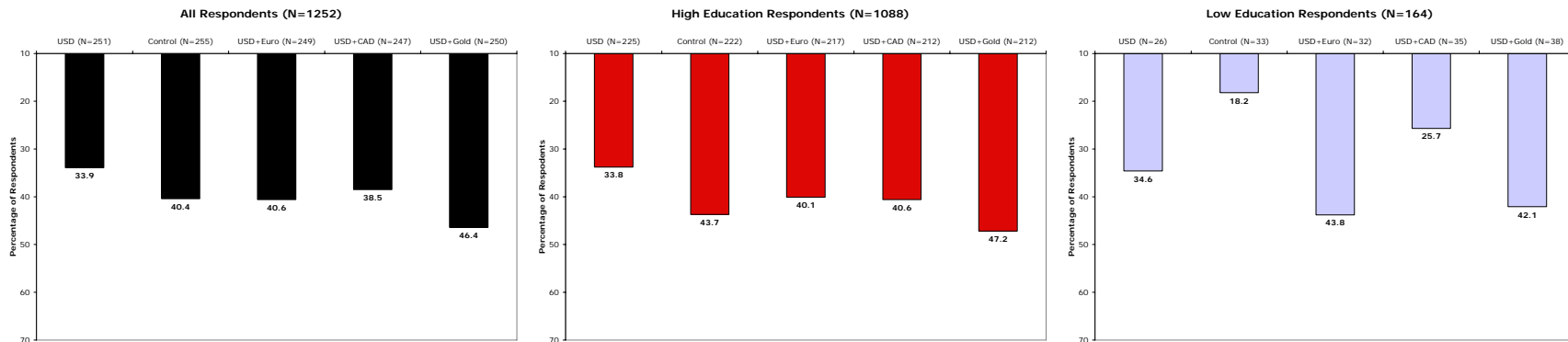




**Figure 6. Percent of subjects who responded “somewhat worse” or “much worse” to “given what you have just read” question after observing DJIA information in double-currency treatment groups.**



**Figure 7a. Percent of subjects who responded “somewhat bad” or “very bad” to “overall condition” question after observing DJIA information in single currency treatment groups.**



**Figure 7b. Percent of subjects who responded “somewhat bad” or “very bad” to “overall condition” question after observing DJIA information in double currency treatment groups.**