



## 5 Myths About Jittery Markets

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Ready to pull all your money out? You should read this first.

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Confused by the latest news from the financial markets? It's no wonder -- the markets seem plenty confused themselves. What does it all mean? It's enough to make investors want to put their hard-earned cash under the mattress.

Before you do that, it might be helpful to burst a few bubbles of our own and separate the many myths about the markets from some truths about what really goes on in them.

The economy is crumbling before our eyes. According to a recent Wall Street Journal/NBC News poll, more than two-thirds of Americans believe that the economy is already in recession -- or will be soon. Sure, housing prices are weakening, mortgage lenders are cratering, and credit is tightening. But those are just a few pieces of tile in the overall economic mosaic.

Job creation is good, corporate profits are solid, and, at least in Federal Reserve Board Chairman Ben Bernanke's opinion, inflation remains a concern -- a sign that the economy is growing, not contracting. This is why, despite the daily drumbeat of worrisome news, the U.S. stock markets have been relatively resilient. Yes, they have been volatile, signaling uncertainty (see below), but most remain up for the year.

The Fed chairman is God.

Blame this misperception on the long tenure of Alan Greenspan, lovingly called "the Maestro" for his harmonious orchestration of the U.S. economy. A semi-retired, tennis-playing, six-figure-speechifying octogenarian he may be, but Mr. Greenspan is most certainly mortal -- as is his successor, Mr. Bernanke. Mr. Greenspan was undeniably there when the U.S. economy needed him. After Sept. 11, 2001, and the bursting of the tech bubble, he engineered an ultra-low federal funds rate -- what the Federal Reserve Bank charges commercial banks to borrow money overnight -- to stimulate the economy. It worked: Rates remained at historic lows from 2001 to 2004, and the economy recovered nicely. But Mr. Greenspan also created the permissive climate that led to no-documentation, no-money-down, no-common-sense home mortgages. He failed to slam on the brakes when giddy lenders and home builders were catering to house-flipping speculators and aspiring homeowners borrowing beyond their means.

Mr. Greenspan needed to send a signal of moderation. That's why Mr. Bernanke is reluctant to lower rates. Tougher credit is a good thing now. It's helping the housing market get back into equilibrium.

Market gurus learned their lessons in the dot-com bubble.

Were it only so. Regulators forced brokerages to decouple banking from stock research after investors figured out that brazen conflicts of interest were making a mockery of honest investment advice. But that didn't stop analysts from jumping on career-boosting bandwagons of fast-moving stocks. As recently as a year ago, analysts maintained "buy" or "neutral" ratings on now-defunct mortgage lenders such as New Century Financial. When the chief executives of major home builders told Wall Street they had plenty of orders for new housing, analysts lapped up the information and kept on recommending their stocks. Bad advice will never be in short supply.

Republican administrations are good for the stock market.

This hoary tale feels like it should be right. Republicans cut taxes, and Democrats raise them, right? But the truth is that presidents only have so much control over how the stock market behaves. Bill Clinton presided over one of the greatest bull markets of all time. But the dirty little secret is that it was phenomenal gains in productivity -- led by technology advances -- that largely accounted for the economic expansion of the 1990s. Did Mr. Clinton's balancing of the federal budget help? Yes. Have George W. Bush's capital-gains and dividend-income tax cuts stimulated investments? You bet. But government policies are only part of the macro story of market behavior.

Markets abhor uncertainty.

Be wary of attempts to anthropomorphize the capital markets. Talking heads often blather on about what "Mr. Market" likes or dislikes, especially uncertainty. In fact, the market is a heartless collection of the best-guess expectations of investors. Certainty and risk are opposites. Good investors, in fact, love uncertainty. The whole notion of buying an undervalued stock stems from an investor's presumption of value that others are missing. If something is certain -- say, the rate on a six-month certificate of deposit -- there's no disagreement over its value and no upside on its price. I'm completely certain of this.



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