The Myth That the President and the Fed Direct the Stock Market

If you own stocks, you're probably searching for explanations about the sudden bear market. The answers you find likely start with an event: what the Fed does, what President Trump does, or what the coronavirus does.

For example, last week, news stories conflated a speech by President Trump with the market decline: "The president's prime time speech failed to assuage fears about coronavirus."

The CNN Business reporter writing that story is hardly to blame for believing the president has the power to turn around the stock market. President Trump, like other presidents, fosters belief in his extraordinary powers. Previously Trump claimed, "the reason our stock market is so successful is because of me."

The desire of politicians to take credit for rising markets is not matched by their desire to accept responsibility for declining markets. President Trump has repeatedly expressed his displeasure at the Federal Reserve, demanding they cut interest rates further to combat COVID-19's negative effects on the economy. Despite their harm to savers and the economy, Trump has urged the Fed to implement negative interest rates.

The relationship between the stock market and interest rates is not what many believe. On Sunday, the Fed slashed interest rates to near zero; on Monday stocks suffered their worst one-day point drop in history.

In his book *The Socionomic Theory of Finance*, financial analyst Robert Prechter explains what he calls the Potent Directors Presumption – "the erroneous belief that agencies such as governments and banking monopolies can direct financial markets and overall economies." Such a belief "that the economy has directors," observes Prechter, "is a primitive notion that confers upon them the status of Greek gods."

The Potent Directors Presumption creates the perception of control where in reality there is none. When things are going well, Prechter writes, "economists and policymakers are confident that things are as they should be, they know why they are so, and they accept credit for them." President Trump is not alone in claiming to pull the economy's levers, at least when the economy is going strong.

As recently as February, President Obama [claimed credit] for the strong economy that President Trump was enjoying. *The Babylon Bee* was spot on when it [satirically quoted] Obama as saying, "My responsibility for the great economic gains in this country ended the moment the stocks started to tank this morning."

All human beings share in the delusion of controlling things beyond our control. Many of us are under delusions about how the economy works. The deluded believe – against all evidence – that the cure for too much debt is even more debt, the cure for too much government spending is more spending, and the cure for distortions caused by a Federal Reserve easy money monetary policy [is more easy money].

In her book [*A Mind of Its Own*], Cordelia Fine describes a classic social psychology experiment showing how we suffer from an "inflated sense of control over what is to come":

> *Take, for example, a task in which volunteers are asked to try and get a light to come on by pressing a button. Volunteers are told that the button might control the light; in fact, the light comes on and off randomly and its illumination is entirely unrelated to what the volunteer does with the button. Yet although the volunteers have actually no*

> *control over the light, their perception is very different. They experience the illusion of control, as it is known, and claim to have an influence over the light.*

Fine adds, "We are even more susceptible to the self-flattering impression that we are responsible for how things have turned out when they turn out well."

Let's apply this light switch experiment to one's faith in the capacity of the Fed or a favorite politician to control the economy.

Trump, Pelosi, and Jerome Powell (the chair of the Fed), tell the public of economy-controlling "light switches" in their offices. The three of them sit by their switches, frantically trying to get the lights to come on. When the lights come on – in other words, when there is a rebound in the stock market – the true believers dutifully applaud.

In truth, the light switches are not connected to a healthy economy; the switches turn on mechanisms causing further harm to the economy.

"Why do people fail to notice that authorities have no beneficial power?" Robert Prechter asks and answers this question in his book *The Wave Principle of Human Social Behavior*:

> *One important reason is that most of the time, times are good. It is easy then to presume that the authorities are doing their jobs just fine. It is only when markets fall, interest rates soar or economies implode that the truth is revealed, and such times are comparatively brief.*

In the longest bull market in history, from 2009 until 2020, stocks climbed over 400 percent. Some believed the bull market would never end. No doubt, those who shared that delusion are now counting on the mythical Potent Directors to bail them out.

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