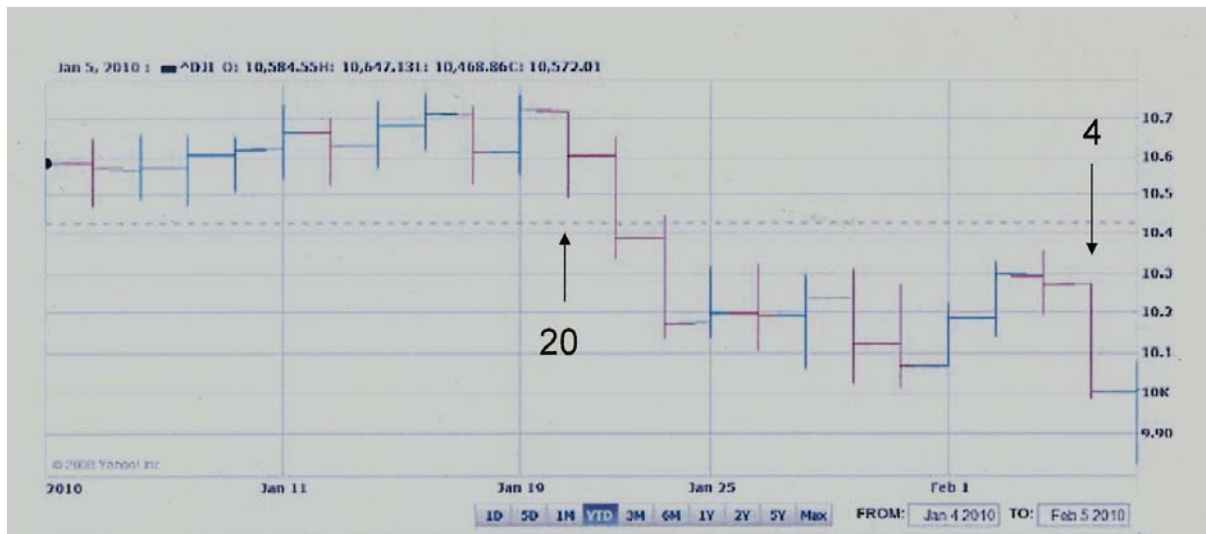


Florian Galler
Psychonomic Newsletter, Feb 08, 2010



Summary: The course of stock markets after Jan 20 is explained as follows: The upward correction amidst the downtrend since Jan 20 was caused by the decision of the German government to purchase stolen data from Swiss banks. The downward move since Feb 4 was started on the day when Scott Brown was sworn in as a U.S. senator, taking the seat held for almost half a century by the late Edward Kennedy.

Old and new approach

My theoretical approach to explain the course of stock market prices until Jan 20 was that the reason for a rise mainly consisted in the advancement of important irrational destructive goals/forces in politics. The mechanism was as follows: The more the existential needs of the broad population are threatened by politics the stronger investors feel and the more they invest in stocks. The acting out of unconscious traumatic wishes by politics causes a psychological cleansing from traumatic feelings among the investors. By identifying with the abusing aggressor in politics they can deny their own traumatic experiences and they can also connect with the perceived abuser's power in their early childhoods. This raises the preference for risky investments. So demand for and prices of stocks rise when the irrational in politics is on the rise.

The above approach was put into question when after Scott Brown's victory in the Massachusetts Senate special election stock prices did not surge but in the contrary started their steepest downward movement since July 2009.

However I had never maintained that the approach would be valid for ever. So in a recent article I had written the following: "This approach in my eyes has proved to be valuable in explaining the course of stock markets for the time period since Oct 2002. It has not been tested for the time before 2002. I am not saying that the relations between causes and consequences on stock markets could not alter in future historical phases."¹

¹ Galler, Florian (2009): Group Process and Stock Markets - 2002 to 2009. The Journal of Psychohistory 37 (2) (2009), pp 92 - 111.

In addition I had written the following on Jan 20 in my last newsletter which I had sent out 3 hours before the opening of the New York stock markets:

"So although there might be an upward potential for stock prices because of the dynamics of the group process which seems to turn irrational again, the investors might get aware that the danger for a collapse of the social systems might be rising to a point that a short term breakdown is possible. The condition of our social systems seem to deteriorate in a point of time where the opposite development would be urgently necessary. In such a situation investors might remain reluctant even during a situation where the group process would allow for some hit and run business with stocks. Therefore I wonder whether phases of rising stock prices in the future could show only moderate gains while phases of falling stock prices might show sharp losses. In other words our systemic crisis might have advanced to the point where we cannot go on with our perverted mechanisms to love destruction and hate construction. In such a situation of utter systemic crisis investors usually stay liquid and do not invest in stocks. Also this might be the time to become rational again."

The stability reserves of our social systems might be used up by now to such a degree and their state might be so critical that a further deterioration could cause their immediate break down. Investors cannot overlook the deteriorations of the social systems any more and in the contrary have to focus on them. Therefore I expect irrational political developments to do harm to stock prices whereas rational developments would give support to them.

Explanation of the course of stock markets since Jan 20: Election day in Massachusetts was Jan. 19, the Browns victory was announced only after the closing bell of Wall Street. Therefore the effect of the election showed up only on Jan 20. On the same day the US Supreme Court ended limits on corporate campaign spending. After this particular corporate interests were strengthened which in my eyes and regarding the functionality of the social systems was some of the worst what could happen to them.

The temporary upswing which began on Feb 2 was caused in my view by the courageous efforts of the German government and Chancellor Angela Merkel against the Swiss banking secrecy:

Germany will buy 'tax cheat' list

The German Chancellor, Angela **Merkel**, says she will buy a list of alleged tax avoiders said to be hiding money in Switzerland - if it is a genuine one.

BBC News - Feb 01 7:34 AM

Merkel supports purchase of stolen bank data

Germany hints that it may buy stolen information on tax evaders who have Swiss bank accounts from an informant, in the face of warnings from the Alpine country.

Press TV - Feb 01 10:07 AM

This decision probably would not have been easy for Merkel. When she announced it on TV the usually thick skinfold below the right angle of her mouth looked to me as thick as never before. Below you see a photograph of her at that occasion from a Swiss newspaper:

<http://www.thurgauerzeitung.ch/>

Merkel will die gestohlenen Daten



Bild: Reuters, 02.02.2010

I consider this as an important example for tackling unethical partial interests. Hans-Rudolf Merz who has been head of the Swiss Federal Department of Finance (FDF) is quoted in today's swiss daily Tages-Anzeiger as having said "the banking secrecy has seven lives". It has been attacked several times in the past by foreign governments but never in a lasting way. The reason for that might be that the fight against the banking secrecy is also a fight against the powerful abusing aggressor. This fight always meets strong resistance among the population, in Switzerland as well as abroad, as in these days in Germany.

The latest downswing phase on stock markets started on Feb 4. This was the day when Scott Brown was sworn in as senator and the Democrats lost their 60-seat filibuster-proof super majority in the Senate:



AP Associated Press *Thu Feb 4, 6:08 PM ET*

Sen. Scott Brown, R-Mass. is followed by reporters as he leaves the Senate floor on Capitol Hill in Washington, Thursday, Feb. 4, 2010, after being **sworn-in** by Vice President Joe Biden.

As you see below this worried the Democrats and probably the investors too.

Obama tells Democrats to keep faith

AP – Thu Feb 4, 8:46 pm ET



AP

WASHINGTON - President Barack Obama rallied his party faithful on Thursday — and took their campaign donations — while telling them that he understands their frustration that Washington hasn't changed during the first year of his presidency. [Full Story »](#)

Obama prays for civility in Washington

AP – Thu Feb 4, 3:22 pm ET



AP

WASHINGTON - President Barack Obama said Thursday he prays lawmakers can restore a "spirit of civility" to the nation's capital. [Full Story »](#)

English Proofreading by Rudy Weiler (www.rweiler.ch)