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In short: Stock markets failed to react negatively to the outcome of the US mid-term elections. This may have happened because the “economic world” is hesitating to perceive the structural political changes and will react to them later and because the US population feels cleansed enough from traumatic rage wishes by the war in Iraq. For stock markets it is crucial whether the cleansing effect is lasting or not.

Ongoing process

Studying the unconscious group process and the development in stock markets I came to the conclusion that unconscious traumatic feelings of rage, anxiety, shame and guilt among the individuals of a population are not acted out in both, politics and economy at the same time. So when the political cycle turns irrational, the economic cycle is relieved from these traumatic feelings. Therefore you should not expect major downturns in stocks and economy during irrational political phases and vice versa. I described the development of the US stock markets in 2 papers. The first paper covered the time from fall 2002 until fall 2004 and the Clinton presidency (Florian Galler, “Gruppenprozess und Aktienbörse”, 2005. You can download a free copy from <http://www.psychohistory.ch/Gruppenprozess.pdf>). A second paper covered the time-span from Mai 10, 2006 until August 9, 2006 (Florian Galler, “Shifts of Social Mood and Growth Anxieties...”, 2006. You can download this paper from http://www.psychohistory.ch/SHIFTS_Aug%202006_hp.pdf . I wrote it for Elliott Wave International. This company provides analyses of international financial markets. I had a discussion with them on the influence of politics on stock markets.

According to my approach stock markets should have reacted negatively to the result of the mid-term elections in the USA, because you cannot expect US politics to be dedicated to the defense of unconscious traumatic feelings of the US population to the same extent as before. This expected negative reaction however did not happen until now to a sufficient extent. I see two major reasons for this unexpected non-reaction of stock-markets to the election:

1. The change of social mood is an unconscious group process, from which in a long term virtually nobody can escape. In a short-term view however subgroups of the society may not surrender to a more general social consensus. This might be the case with the social subgroup of the “economic world”. This one is, compared to the „political world“ compounded more by individuals from older psychoclasses than social average and therefore has a relatively increased need to act out traumatic feelings.
For this reason the world of economy may hesitate to perceive any fundamental rational change in the field of politics. Then this subgroup will perceive politics as if nothing had changed. In my article “Gruppenprozess und Aktienbörse“ I described how stocks sometimes would start their delayed reaction to a rational political change just in that moment when politics enter in a negative mood phase.
2. The other possible reason for the non-reaction of stock markets to the elections is that the US population is cleansed enough from their unconscious traumatic feelings by the war in Iraq and by the sacrifice of the Republicans in Congress. Now they have enough from war and anxieties. They are back in their rational main personalities and their alter ego is not strong enough to overwhelm their conscious personalities.
Because of the cleansing effect there is simply not enough rage left in the amygdala to

be acted out in a significant economic downturn.

Outlook

It is difficult to say whether the cleansing effect is a lasting one which would herald a prolonged phase of a social mood where rational politics could coexist with rational stock markets and economics without inner rage feelings in need to be acted out in a recession or depression. The other option is that the new rationality in politics could be accompanied by severe negative economic reactions. The extent of the next negative correction in stock markets should give a hint about what to expect in a more longterm future.

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