

Wall Street Wallows in Shudankizoku Ishiki

11-25-16

That's group consciousness or group think, but since it's something more like a drive, or a thought not derived from thinking, it might be termed a nervous tick that compels one to turn toward the bright side. Once they open their eyes they find themselves in Japan circa 1990.

The author that cited Japanese group consciousness as contributing to the 1990 financial collapse digs deeper into causality with the following -- "the Japanese psyche is particularly prone to mood swings, shifting abruptly between elation and despair. These national weaknesses were exploited ruthlessly by brokers -- "

Correcting the bigoted notion that the Japanese people need lithium treatment (presumably he would think the Chinese need the same, but we don't know because they are inscrutable) with the plainly obvious -- all investors who fling themselves into the irrational swirl of a market economy will generate the same consequences -- we come to what's happened to American investors the past couple of weeks.

Talk about mood swings! From the despair of Nov. 8th to the elation of Nov. 9th, and finally to the jubilation of today's close when all four major indices hit new highs for the first time since 1999 -- the Russell 2000 has had 15 consecutive gains and a 16% rise. The volatility index (VIX -- also known as the 'fear index') is one third lower than historic average and 44% below its peak, meaning that investors see no need to hedge their equity bets, and it's all hands on deck and full steam ahead.

There is nothing happening in the real economy to account for investor bliss. This week's major reports showed it to be as stagnantly depressed as ever. The promoters tried to make the durable goods report look good by retaining airplane sales. Removing transportation durable goods shipments and orders were slightly negative. The most important indicator of the health of the real economy relates to capital goods. Shipments and orders were down 6 and 4 percent respectively. Hew home sales were down. Existing home sales were up, but inventory was down.

All it took was for Trump to state the standard post-election tripe about all Americans coming together, and working together, and lying to each other together, and that will solve all our national problems. Given that the markets are where they were just before the dot com bust, and that the Fed is set to finally increase rates next month; probably much more frequently because Trump's policies are expected to be inflationary, it's worth remembering what happened to the Japanese economy when its main index was near 40,000 and property values were four times that of the entire US.

On Christmas day 1989 the new head of the central bank ordered a second rise in the discount rate (after one in May). Four days later it reached a new high, never to be reached again. At first the markets declined very slowly and there were 5 more rate rises by August 1990. When things were just right -- the brakes were gradually applied -- and they didn't work. Rates were lowered -- eventually down to 0.25%; margin requirements on stock were reduced; brokers were ordered to

purchase stocks; insurers were made to stop selling shares; money from public pension funds and postal saving accounts was dumped in equities; the largest companies were ordered to buy back their shares. Nothing worked because when one pricks a bubble that was generated from nothing, it has nothing to fall back to but reality -- a very sick real economy.

So the Fed will raise the rate in December for the first time since the previous December. The following month Trump will be sworn in. The two events coming so close together may produce the event that most everyone believes to be on the horizon. The mainstream media and politicians have built up Trump to be an OK guy, no doubt reasoning that doing so is in the best interests of all. A Trump somewhat cowed by large public displays of mass hatred has been cleansed and shined up as 'our leader.' On January 20th we may see the real Trump set free to make his mark on America and the world. Once free as president he will be difficult to restrain. The same can be said for any downturn he helps bring about.

<http://unrealeconomy.org>