

FINANCIAL FRIDAYS

Issue 3

ECONOMIC NUMBERS- WHY IS A GOOD NUMBER BAD FOR ME?

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How many times have you heard this recently:

“Unemployment hit a 30 year low this month. The rate has dropped to levels never seen before. The stock market is off heavy on this news.”

How can it be that “good news” can result in a market drop? That makes no sense to a normal viewer. Good news should be good news all around, and the markets should respond accordingly.

I have two answers for you- one that is technical and one that is emotional.

First, the technical answer. The markets tend to react (or over-react) to news by anticipating the consequences of an event or report. Remember, every economic report that is issued comes with a slew of data, and all of it is anticipated before-hand. “Bets” on the results are placed days and weeks before the report is issued. Once the numbers are out in the open, experts will quickly analyze them and predict what they mean going forward. I know this because this is what I did for a quarter century on Wall Street.

If the report says that the unemployment rate dropped, that is good news overall. However, within that report it might state that wages are rising- again, on its face a good thing for workers. However, for certain companies, that might not be a good thing. Rising costs for labor can mean higher prices for their products, which could mean lower sales, which could mean a lower stock price. See how a good news item made a stock go down? Sometimes, it’s that simple. Now, think about the hundreds of measurements that are taken every month about our economy, and you can see how these movements happen more often than you would think, and not always in the direction you might expect.

Now let’s get to the emotional answer. NOTE- I am NOT espousing one political ideology over the other. I am simply stating reality as it relates to both parties, no matter who is in office. I have experienced it first-hand under both Democrats and Republicans, and this truth is equal and exact. Good news is only good news if **YOUR GUY** is in the White House! Let’s just look at the past 10 years. For eight years, President Obama presided over the longest period without a major market correction. That is a fact. On the other hand, the rate of growth in the economy was the worst on record for any period. That is also a fact. How can these two facts be both good and bad? It depends on what side you want to take. Democrats point to the long, sustained period of growth as proof of the President’s success, while the Republicans use the sluggish pace of growth as proof of his failure. Who is right? They both are. Who do you believe? Depends on your political slant! Remember this as we think about the past two+ years under President Trump. The same rules can apply. Good numbers are either good or bad, depending on whether you support him or oppose him. Finally, don’t forget about the slant of the person giving you the news. Take into account *HOW* they present the numbers- you will see!!!

Continued success!