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Words really matter

It's not only in diplomatic circles that certain state department officials intone that "words matter" after the unfortunate expletive not aimed at a person but meant only as an exclamation point of sorts. In the market too, the words coming from certain mouths can move (or rattle) the market.

As a bit of history, prior to the 2000 bursting of the dot-com bubble, Alan Greenspan then chair of the Federal Reserve warned of the high valuations of companies (including such oddities as walkingthedog.com) that were bleeding money like donors to the Red Cross. He cautioned investors of the "irrational exuberance" of the market. The ECB's President, Mario Draghi sought to boost investor confidence in the Euro with a statement in 2012 saying he will intervene in supporting the currency and "do whatever it takes" to keep it sound.

More recently, this corner has parsed and read between the lines of any statement of the current Fed Chair, Janet Yellen on when and by how much, and if ever, the interest rates will be moved up. Her statements are circumspect and calibrated—the timing will be data driven. And even a slight deviation about timeliness (It is now 3:15 PM and sunset is upon us—no, she didn't say that) can move the market.

Even in the daily tracking of the stock market, the media interview resource persons, theoretically knowledgeable with the vagaries of the market to get a reading on the ups and downs that the index undergoes on a daily basis. The words of the analyst may be trite. But they too can nudge the market sentiment to blow hot or cold.

Business news routinely features the stock market. Often too, the TV version employs a phone interview with an expert market analyst. The disembodied voice from the phone patch with the still photo of the speaker on the side seems like ít's coming from a cave, much like the Oracle of Delphi.

Do stock analysts featured in business programs and newsletters use a thesaurus of phrases to explain the ups and downs of the market?

Like sex, the stock market seems to offer little variety in describing its gyrations. Analysts then tend to fall into safe formulaic expressions when explaining how and why the market moved. With their stock phrases, analysis can become almost predictable.

When the market is unchanged, or moving within a very narrow band, analysts yawn—the market is moving sideways, waiting for some good news to perk it up; Volume is down as market players are waiting in the sidelines for positive news (shopping at Kindle in their iPad and sipping café latte'); Fund managers are keeping their powder dry and waiting for buying opportunities. Given a few more seconds, the interviewee is likely to intone—cash is king.

When a new IPO is listed, enthusiasm is noted and the rise in price (up 6% from listing price) is highlighted. The less stellar performance after two days is characterized as profit-taking described almost like recovering from a hangover after a really great party.

When the market dips slightly—this is an expected technical correction arising from the market's overbought position (Hey, what do I do with all these stocks?); there is mild profit taking to window-dress the quarterly numbers of the funds; We should see movement within a narrow band in the coming days as Jupiter aligns with Mars; this small dip is healthy after the run-up in the last six weeks.

When the market drops precipitously as it has done in the last few weeks some extraneous (non-economic) factor is invoked. The hot money is sweating under the collar with the rising body count. This is akin to the plague of locusts. Will the killing of the first-born come next?

When the market unexpectedly rebounds as it did after elections, a new set of phrases have to be conjured up—the low-interest regime is gaining traction; there is some excitement in the new leadership who is rolling up its sleeves to get to work; we're seeing selective buying windows on second liners.

These doses of market wisdom are attributed to any number of analysts who haven't left for lunch yet. Sometimes, they come out in investment briefings for private banking clients. So, they truly exist outside the disembodied voice from the cave and are not mere figments of the imagination.

"Bargain hunting" to explain a turn-up in prices is the most interesting explanation offered on the market's behavior. Stocks which have dropped continuously in the last few weeks are picked up in anticipation of a recovery. Insider information has zeroed in on a sleepy stock that still has un-priced good news, perhaps a new joint venture or an acquisition in the due diligence stage.

What about the speech patterns of the new leader? A head of state who felt alluded to in terms of her mother's revenue stream arising from the exchange of bodily fluid for a fee has diplomatically dismissed the outburst of expletives as merely "colorful". And the threatened departure from the world body which would have added yet another neologism to dramatic leave-taking, or "Phexit"? (If it ain't broke, don't phexit), was it also colorful language at work?

The expletives accompanied by hundred-year-old atrocities (with photos) seem to signal…what? The seriousness of the message and the frivolity in which we are asked to ignore it can rattle the cages. It would indeed be fortunate if all these unnecessary explosions of undiplomatic language are just charged to bad jokes told too early in the morning.

Words really matter, especially when they come from the highest source who is presumed to be watching what he says in public before microphones and cameras. And he is not even talking about finance but the war on drugs. The ricochet effect of undiplomatic words on the market is not a case of resisting arrest.

Anyway, let's go back to the talking heads who track the market every day.

Stock analysts should consult the housewives on the behavior of markets to introduce the more vibrant language in price theory. Housewives can truly enrich the analysts' vocabulary to include in their language such concepts as haggling, canvassing, consumer reports, bulk discounting, and not paying for rotten goods.

As for the effect of words on the market versus hard analysis of business models and dropping market shares among competitors that are not factored into the price, it is well to remember the renowned economist and stock market player, John Maynard Keynes and his caution against going against market wisdom—"the market can remain irrational longer than you can remain solvent".

Or as a banker more succinctly puts it—"even when the market is wrong, it is right."

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