

INCREDIBLE By VOLATILITY Constantin AND C. Stanciu ANXIETY

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Abstract: Market regulators have to identify better ways to manage the market anxiety. The financial world is so interconnected nowadays, rapid response and decisive action to support investors, which in turn will improve the market sentiment, is to be carried across markets by the respective regulators. Another important aspect is relying on market leaders-influencers.

Key words: market anxiety, regulators, investors

On May 6, 2010 the Dow Jones Index fell 999 points between 2.30 and 3 p.m making this 30-minute period the most volatile 30 minutes in Wall Street history. After 3 p.m. Dow recovered part of the loss and ended the trading session 347.8 (3.2%) down. Many reasons were provided for this unfortunate event (algorithmic programs, fat-finger error, P&G stock), but even today a clear explanation for the “flash crash” remains a mystery.

If an explanation is not crystal clear for such an important event at the New York Stock Exchange so we can learn from it and avoid errors alike, then how should we approach more complex issues, such as the market fear/anxiety that was created? By guessing and waiting for the complex issues to fix by themselves? The famous Canadian economist John K. Galbraith once said “The study of money, above all other fields in economics is one in which complexity is used to disguise truth or to evade truth, not to reveal it.”(Money: Whence it came, where it went- 1975)

Market regulators need to have better ways to manage the market anxiety. Although this is a delicate issue to be dealt with, the smallest steps toward calming the fear will instill confidence in the market players. Rapid response and decisive action to support investors will improve the market sentiment. If action is taken in one market it should be carried across other markets by the respective regulators, as we know that our financial world is so interconnected nowadays.

The action to temper investor’s anxiety is exactly what did not happen in respect to the European and U.S. markets. The series of events that followed May 6, 2010 amplified the anxiety and brought us to this day when we have a drop of 8.91% (as of June 9, 2010) in the Dow Jones. As Sir Winston Churchill says, “When you are going through hell, keep going” the market players have only one choice and that is to make sure that they survive until the anxiety diminishes and markets get on the right path. When that will happen is again a mystery.

We will have to rely on market leaders-influencers whomever they are. Put our hopes in their hands. We have to trust that they are working in our best interest and they are watching for our well being. These last ideas remind me of Henry Kissinger’s words “The task of the leader is to get his people from where they are to where they have not been.” Hopefully for us the place where we will be