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Stock Market Investing Tips, Techniques, and Resources



Self-fulfilling Recession Prophecy

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The economy, like the market, looks forward in its attempts to predict the future. As the Fed raises interest rates to fight inflation, businesses worry about payroll, sales, and expenses like gasoline for transportation. As noted in an article about the self-fulfilling recession prophecy, *Bloomberg* quotes Robert Schiller as saying that **fear of recession** changes behavior in the economy and turns that fear into reality. Folks are watching stocks fall into an official bear market. Although the stock market is not the economy and stocks in the S&P energy sector are up, the S&P officially in bear market territory is spooking people into spending less, laying off workers, and investing less. When this drives the economy down for three months in a row we will officially be in a recession.

Worse Than Fifty-fifty Odds of a Recession

According to Schiller, there is always a narrative going on about the economy. Today that narrative includes the Fed raising interest rates in an attempt to **tame inflation**. As the Fed follows through on its promise to raise interest rates monthly the market gets all excited in the days just prior to the FOMC meeting and pundits wonder if the Fed will go for higher rate increases. Schiller says that there are predictable aspects of pre-recession narratives.

Locking in Low Mortgage Rates

As homeowners and prospective home buyers see the likelihood of higher interest rates, they either refinance their homes to lock in lower rates or buy a home earlier than they might have. For many Americans this scenario brings back painful memories of the Financial Crisis where the Great Recession included a collapse of the housing markets and people who were “upside down” in their mortgages. Soon we may see the idea of another housing bubble as part of the pre-recession narrative.

Post-Covid Stress Syndrome

The world tends to go through periods of tranquility and times of chaos. When things have been tranquil, we expect further tranquility. When things have been hectic and changing rapidly, we tend to expect further chaos. Such is the case today when Covid has caused a million deaths in the USA. The economy went into a recession only to be resuscitated by the huge infusions of cash from Congress and the Federal Reserve. Then the recovery turned out to be split between tech companies where people could work online from home and companies that relied on personal services like serving food or carrying folks in airplanes from city to city. The point is that we have gotten used to having our lives upended again and again. Thus, we expect chaos to be the norm instead of being rare. The constant bickering in the political realm does nothing to help any of this.

Two Responses to Recession Expectations

Everyone will change their spending habits when they expect there will be a recession. How they change their habits will depend on the security of their jobs and finances. Those who believe they will lose their jobs or see hours cut back and who do not have financial reserves will cut back significantly on spending, choose cheaper options, and go without. Those who believe they will have the wherewithal to survive without difficulty will often wait to make purchases at bargain prices taking advantage of the expected economic downturn. In both cases this leads to less spending, a slower economy, and greater likelihood of a recession.

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