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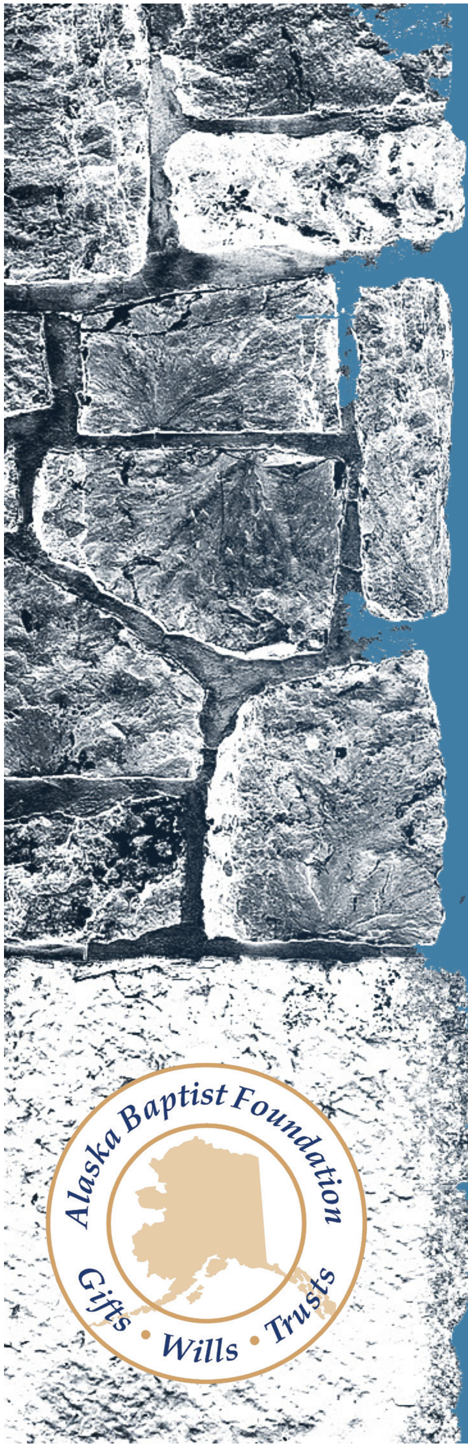
THE CORNERSTONE



Given the recent volatility in markets one may ask: What causes the markets to do what they do?

This is a very complex question. Markets are affected by the sciences of accounting, economics, finance and mathematics and yet are intermixed with behavioral components like "groupthink" and "market sentiment." All of these factors interrelate, combining into what is often referred to as "market trends." There are four core elements which contribute to market trends:

1. **<u>The Role of Government</u>-** the manner in which government is involved in financial markets on both the science and behavior spectrum:
   - Fiscal Policy: governments affect markets by injecting spending or taking resources through taxation.
   - Monetary policy: governments, generally through a quasi-intermediary like the Federal Reserve, expand or contract the availability of credit and currency through interest rate policies, as well as direct purchases or sale of various investment instruments.
2. **<u>The Role of International Transactions</u>**- the currency of one country affects economic growth by how much it exports or imports. The more money that leaves a country (imports) the weaker that country's economy. A country that exports its goods and services increases its wealth. The trade deficit is a reference to having more imports than exports which has a negative effect on a country's Gross Domestic Product (GDP).
3. **<u>The Role of Speculation and Expectation</u>**: many of the behavioral/psychological components are witnessed here. There is at least three different participants, all with unique perspectives in how economic growth is viewed and defined. These groups are consumers, politicians, and investors. These distinctive views of future economic outlook affect present behavior. The market is a future value indicator. It is making presumptions about the future based on what it sees at present. Investors of various types, whether short-term or long-term, often rely on tools such as sentiment indicators of the participants, as well as fundamental (company specific) or technical (market pattern) analysis. All of these tools are used in an attempt to predict future outcomes.
4. **<u>The Role of Supply and Demand</u>**: This is the most basic, and purely economic component.. There is push-pull dynamic in prices. Prices change as the supply or demand for that product or service increases or decreases. As such, the investment value often referred to as Fair Market Value (FMV) of a product or service is impacted.

These four components do not exist in a vacuum and often are intermixed. For example, government policies can affect the demand and supply of a country's currency which then has an effect on international transactions which investors then speculate on the best opportunities for returns.

The information in this article is general in nature and does not represent an exhaustive analysis of the topic nor is it intended for investment or financial advice. Please consult appropriate financial and or legal professionals for specific situations.

Information used from:

https://www.investopedia.com/articles/trading/09/what-factors-create-trends.asp

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