

Robert Folsom's Market Report

By Paul Diemer

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Q. How Does It Feel To Be A Rate Cut?

A. Anticipated, Talked About, Hoped For, and Completely Ineffective?

11/6/2002 2:33:14 PM

Commenting on the Federal Reserve's unprecedented 11 rate cuts in 2001, an article in the Nov. 5 Financial Times asserted, 'The notion that rate cuts to date have had no effect is wrong. The course of the economy in the absence of action would have been worse...'

That statement expresses what the recent surge of speculation about 'What the Fed Will Do' has already confirmed: the public still believes the Fed can 'fix' the economy, and that rate cuts are the way to do it. From there it's not a stretch to say the public also believes rate cuts are good for stocks -- in fact, several stories last week quoted 'expert analysts' saying as much.

Yet history shows just the opposite.

Regarding Japan, the consensus among U.S. economists is that the Japanese central bank 'cut rates too slowly.' Yet look at the NASDAQ's performance during last year's aggressive policy of 11 cuts in 12 months. It's hard to tell which fell more rapidly -- rates or the stock index's overall trend.

The point is not to bash the Federal Reserve or the public for believing in it. Some Fed officials have themselves warned that monetary policy cannot fix the market or many of the problems with the economy.

As the Nov. 4 Short Term Update notes, 'the point is that the Federal Reserve does not 'control' the market...They set one particular short-term interest rate in a bid to facilitate credit. Period. Whether the market accepts that credit is solely a function of psychology (social mood), and can be measured by the Elliott wave Principle.'

Understanding this prevailing psychology makes all the difference in getting ahead of the larger trend: Elliott wave analysis will keep you prepared for opportunities and protected from 'pitfalls' in BOTH directions.

(Editor's note: Wondering what IS ahead for the economy? Or if the current rally is the start of a new bull market? Start a risk-free subscription to The Financial Forecast Service and get specific, precise commentary with labeled charts that address those questions directly. Sign up for the free updates here: <http://www.elliottwaveonline.com/marketreport.htm>)

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