

# Fed Induced ADHD

Wednesday, June 20, 2012



If you caught the evening news, you might have noticed that the S&P 500 index closed down a very small amount for the day (0.17% to be precise). Ho hum. What most people missed (because they lead normal lives) was an amazing display of investor ADHD surrounding the latest pronouncement by the Federal Reserve.

The market been trading lower when the Fed announced at 12:30 that it would extend Operation Twist but not introduce any new programs to further ease monetary policy. That was good for a few minutes of straight down to the low for the day. Then, bam! Trading reversed sharply higher once the full text of the Fed statement gave reason to believe that QE3 was postponed but not cancelled. That lasted for about 40 minutes.

In keeping with new Fed practice, Ben Bernanke held a press conference that helped drive the market back down to a second low for the day before a final burst higher in the final 40 minutes of trading. Just for a little context, a 1.36% move in 40 minutes is the equivalent of getting more than 3000% on your money in one year. This kind of price volatility is usually a bad sign. We'll see what happens this time.