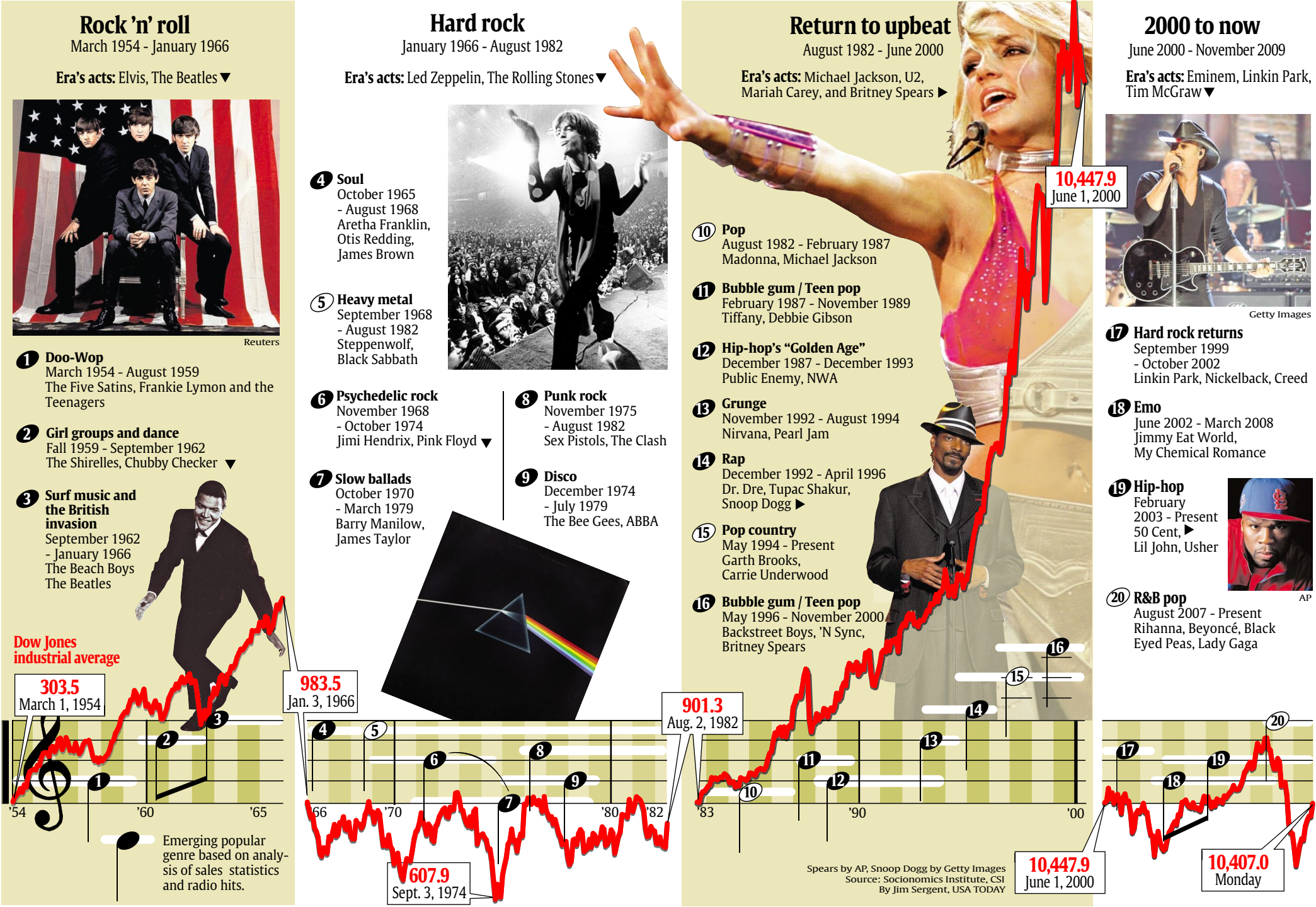


Markets

Does the stock market listen to the music or does it move to a different beat?

Some researchers say mass mood swings in the population affect all aspects of life, from the types of music we prefer to the movies we watch — and our desire to buy or sell stocks. If true, investors might want to add the latest Top 10 music rankings and box office hits to traditional stock market measures.



Does music rock the stock world?

Mass mood swings could signal market's direction

By Matt Krantz
USA TODAY

Sex, drugs, rock 'n' roll — and the stock market? Frustrated by traditional stock market tools that failed to warn investors markets were about to fall apart in 2007, some academics and analysts are wondering if trends in pop culture might provide more accurate clues of where stocks are headed.

It might seem like a strange idea. But if this way of thinking is right, the ramifications are profound. Forget studying stock charts, earnings and revenue when it comes to your portfolio. Think guitar riffs, *Billboard* charts and movie box office receipts, or so the theory goes.

The idea linking culture to stock prices is surprisingly simple: The population essentially goes through mass mood swings that determine not only the types of music we listen to and movies we watch, but also if we want to buy or sell stocks. These emotional booms and busts are followed by corresponding swings on Wall Street.

"The same social elements driving the stock market are driving the gyrations on the dance floor," says Matt Lampert, research fellow at the Socionomics Institute, a think tank associated with well-known market researcher Robert Prechter, who first advanced the idea in the 1980s.

When people are in a collective good mood, for instance, they tend to listen to bubble-gum-pop music with a steady happy beat and opt for comedies on TV and in the movies. During these times, investors feel good about buying stocks and push them to extreme bubblelike highs, research from Prechter's Socionomics Institute finds.

Conversely, when they're in a funk, people gravitate to music with dark, complex tones and themes and horror movies or serious dramas. During these

times, investors get nervous about stocks.

If true, this theory represents a direct assault on the stock market's long-accepted reputation as a coolly accurate discounter of future economic and corporate earnings activity. "Humans are very irrational," says Dennis Elam, professor of accounting at Texas A&M-San Antonio, pointing out that stocks "were driven to ridiculous lows" in the recent financial crisis. "There's nothing rational about that."

Music

This decade's wild emotional shifts in music and stocks serve as a case study, Prechter says. The collective mood couldn't have been any higher than it was in January 2000. Stocks were hitting highs just as boy bands, Britney Spears and Christina Aguilera were topping the charts and Ricky Martin sang about *Livin' La Vida Loca*.

The peppy pop song *Smooth*, from Carlos Santana and Rob Thomas, hit the top of the charts and stayed No. 1 on the *Billboard* charts until Jan. 14, 2000 — the day the Dow Jones industrial average peaked and a nearly two-year-long bear market began, Lampert and colleague Euan Wilson found.

Music also reflected the population's sinking social mood as stocks began to tumble into another bear market in 2007. As stocks began to stumble, music also took a darker tone. Linkin Park, a band known for its screaming vocals and guitar, launched its top-selling *Minutes to Midnight* in 2007. And the following year, Spears ditched the goodie-two-shoes image and hit No. 1 for the first time in 10 years with the song *Womanizer*.

Some darker rock bands even get back together when the mood sours. AC/DC hit No. 1 on the *Billboard* charts in 2008, and The Sex Pistols returned to the concert circuit after the Dow peaked in 2007.

The connection of music, stocks and mood is more than coincidence, says Philip Maymin, professor of finance and risk engineering at New York University Polytechnic Institute. Maymin studied the so-called beat variance of music during market tops

March 29, 1999, photo by Adam Nadel, AP

Dow 10,000: A trader celebrates in New York.

What song topped Billboard's Hot 100 when the Dow first reached 10,000, on March 29, 1999?

A. ___ *Believe* by Cher
B. ___ *No Scrubs* by TLC
C. ___ *Every Morning* by Sugar Ray
D. ___ *All I Have to Give* by Backstreet Boys
E. ___ *Kiss Me* by Sixpence None the Richer

Find the answer online

Go to money.usatoday.com to answer this question and match other top songs to major stock milestones.

Television

The small screen is a little slower to reflect societal mood shifts, but it's still an accurate gauge, Wilson says. Popular shows on TV in 2008 were classic examples of the dark and heavy theme, foreshadowing more market trouble. One example was *House*, which stars a drug-addicted doctor. Wilson says the runaway popularity of vampire shows, including *True Blood*, highlights the population's fascination at the time with the darker side. Maybe it's not a good sign that vampires are still hot.

Movies

What better movie to show how negative the population had become than *The Dark Knight*, a Batman thriller set in "a world without rules," Elam says. The movie was a huge hit in early 2008, when the bear market had started and was months away from its biggest losses, he says.

The popularity of horror movies during economic downturns is especially telling, Elam says. *Dracula*, for instance, first captivated movie audiences during the Depression in the early 1930s. And *The Exorcist* was ruling in the theaters in 1973 and 1974, while that bear market raged on.

Critics of pop-culture market timing abound. "People do behave emotionally, and that's one thing that gets investors in trouble," says Burton Malkiel, Princeton economics professor and well-known market historian. But he says looking at pop culture as a way to predict stock prices is based on trying to draw conclusions based on dubious coincidences.

Still, proponents of the theory say pop culture is especially useful at confirming when mood is near an inflection point, something traditional market measures often miss.

Traditional ways of studying stocks "don't identify when things are going wrong," Wilson says. While investing on the idea that people are rational may work 90% of the time, "if you miss these times, such as in 2008 and 2009, I wouldn't call it useful."

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