



09/25/11: Self-fulfilling prophecy

I heard an economist say recently that a recession (or double dip) may actually be more likely now because we fear it will happen. That it would become a self-fulfilling prophecy. I thought that was a very interesting and astute concept. Here are a few definitions for self-fulfilling prophecy from the web:

a prediction that directly or indirectly causes itself to become true

a prophecy declared as truth ("we are entering a second recession") when it is actually not yet true may sufficiently influence people, either through fear or logical confusion, so that their reactions ultimately fulfill the once-false prophecy

a statement that alters actions and therefore becomes true (someone told us we are entering a recession, so we sell stocks, cut our spending, and thus the recession happens)

After what we experienced so recently in 2008, we dread even more that kind of situation (because the feelings are so fresh) and we do not want to repeat it, so we pull back and wait. If enough of us do this, (i.e. sell stocks, stop spending) we have another recession. This is quite possible because approximately 70% of America's economic activity is made up of personal expenditures, so we consumers are extremely important to our economy. So, this could happen. If it's not happening already.

Unfortunately, however, as with anything that has to do with the future, nobody can predict it! Not even if a self-fulfilling prophecy will happen! I continue to stand by the belief that it is impossible to forecast market movements, so a well-diversified, planned long-term strategy (which incorporates short term needs) is the best approach in these (or any) conditions.

The world is not coming to an end. We will recover from this. We always have and we always will.

Margie