

# How Stories Can Drive the Stock Market

ECONOMIC VIEW  
ROBERT J. SHILLER

Popular narratives that exaggerate can lead to some overreactions.

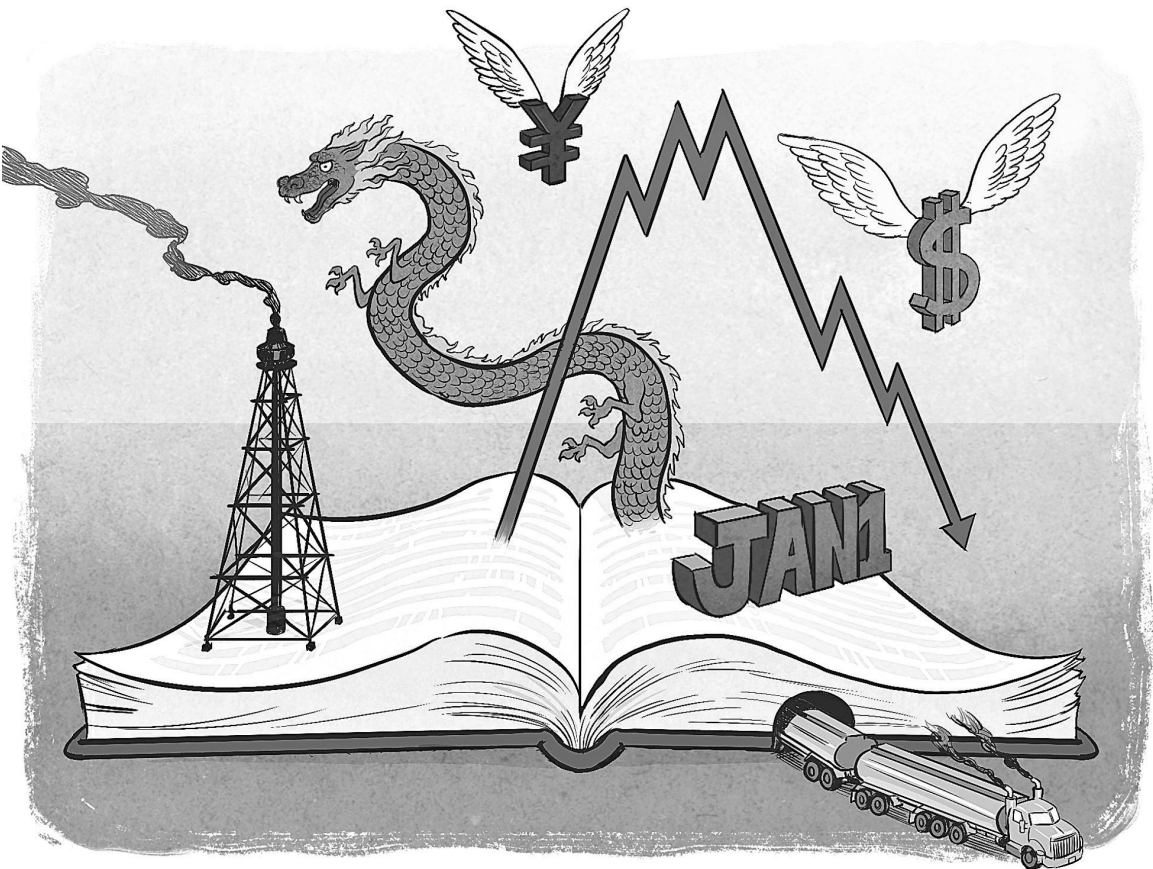
Since the stock market began falling this year, there seems to have been a palpable change in the stories we have been hearing. Suddenly there is more willingness to entertain the possibility of a major stock market correction, or of an economic recession.

It is no surprise this kind of talk appears after a market drop: The stock market is perhaps the most famous leading indicator of a recession, though hardly a perfect one. That status has been well known at least since the 1920s.

Narrative psychology, as in the work of the New York University psychologist Jerome Bruner, for example, suggests popular narratives are drivers of motivation. Several such narratives are worth looking at more closely.

One tale has focused on the Chinese economy and its stock market declines at the beginning of 2016. Concerns about Chinese overinvestment, shadow banking issues, ghost cities built but never inhabited and similar problems have been amplified.

The prevalence of such stories encourages a gross exaggeration of the importance of the Chinese economy for our markets. Consider that United States exports to China have recently accounted for only six-tenths of 1 percent of our gross domestic product. United States imports in goods from China, though about four times bigger, are still rela-



KOREN SHADMI

tively small as an overall proportion. But once story-based thinking gets started, there is comparatively little public interest in such numbers.

Another current focus is the fact that this year set a record for poor performance of the stock market in the first week of the year. That timing has given the market-decline story wings, though there is really nothing special about such timing. After all, the date of the new year is an arbitrary social convention. There's a Western Christian New

Year, an Orthodox New Year, a Jewish New Year, an Islamic New Year, a Chinese New Year and so forth.

It is worth recalling the stock market movements at the beginning of the year 2000, widely celebrated as the start of a new millennium. That timing sounds portentous, but it is again completely arbitrary. Even using the Western calendar, the true millennium, it can be argued, was Jan. 1, 2001. And it seems to be no coincidence that the highest price-earnings ratio since 1881 oc-

curred around then.

A third narrative concerns oil and the extremely low prices energy commodities have reached. A few years ago, the prevailing narrative about oil was about the amazing United States success with a newly improved extraction method, fracking, to the detriment of the less creative oil-exporting countries. Unfortunately, the bottom has dropped out of that narrative. With this year's extremely low oil prices, many of these frackers, so recent-

ly hailed as heroes, are going out of business. Their ingenuity in increasing the supply of oil has been part of the problem by contributing to the oil price drop.

There is also a fourth story, a tale of the tripling of the United States stock market from 2009 to 2014 and its supposed sudden unwinding this year. This is not just a story about numbers: It too is a human interest story, one in which many investors missed a huge profit opportunity. They missed it because they overreacted to the 2008 financial crisis and became too fearful to stay in the market. This tale focuses on the success of market believers, who were rewarded for their prescience.

Most economists and historians pay little heed to such stories. But the Yale historian Ramsay MacMullen is an exception. In his book, "Feelings in History: Ancient and Modern," he wrote: "History is feeling. It is feelings that make us do what we do; and feelings can in fact be read."

Professor MacMullen tries to convey to the reader the feelings people had long ago when they were inspired or dejected. He says he believes this will help us understand history at a deeper level. As an example, he gives us the tale of the murder of the abolitionist editor Elijah Lovejoy by a pro-slavery mob in 1837. That story motivated John Brown, leading years later to his revolt and capture and hanging in 1859. Such stories are serious matters. They can lead to revolutions, or to market collapses.

Those who care about the stock market will surely be living through a new sequence of stories this year. Whether these narratives lead to further price decreases and yet more negative stories, is one possibility. But only time will tell us how the stories go.



JENN ACKERMAN FOR THE NEW YORK TIMES

**BEHIND THE WHEEL** Carol Sue Johnson, 73, is among the older Americans who are driving for the services Uber and Lyft to supplement their incomes.

## Older Drivers Hit The Road for Pay

WORKING  
ELIZABETH OLSON

When Carol Sue Johnson, 73, wheels her Mazda out of her driveway in suburban Minneapolis, she doesn't know how much money she will make driving for the ride-hailing service Uber, but she's sure she will have an adventure.

Her passengers run the gamut, she said, including three visiting Chinese business executives who were surprised to see a female driver and teenagers needing a ride to hockey practices or games.

When one group of teenagers "started to get too rowdy," said Ms. Johnson, who goes by Sue, "one of them told the others to stop because 'Grandma's in the car.'"

Ms. Johnson is among a growing number of older Americans who are driving for Uber or its competitor Lyft to augment their retirement income. Some drivers say it is a great chance to be independent and earn extra cash on their own schedule.

**Ride-hailing services offer contractors safety and independence.**

But others say it is exploitation of older people who work as independent contractors, without any benefits.

Many retirees, like Ms. Johnson, drive part time, about 20 to 30 hours a week; others may drive full time.

Drivers are in such demand that last July, Uber and Life Reimagined, a subsidiary of AARP, formed a partnership to recruit more people as drivers.

As the population ages and more baby boomers challenge traditional retirement norms, the number of older workers should continue to rise. One reason is that many people are leaving the full-time work force with less money than they need to support themselves comfortably.

Uber, which surveyed drivers in 2014 and 2015, found that nearly one-fourth of its drivers were 50 or older. Older drivers are prized because they usually own their own

cars, have adequate auto insurance and, according to insurance statistics, have fewer crashes.

Uber and Lyft — which said it did not track the ages of its drivers — and their supporters contend that on-demand employment lets companies provide work without overtime pay and vacation time, that attach to full-time employees.

Drivers in Seattle who belong to the App-Based Drivers Association, a group allied with the Teamsters union, won the right in December to negotiate pay and working conditions.

For most senior drivers, the biggest advantage is the extra income. But driving for a ride-booking service, some retirees said, can offer more than money.

"I love the freedom, the flexibility — and the cash coming in every week," said Maureen Mahon, 59, who has been driving intermittently since mid-2014.

"I meet businessmen, college kids on their way out for the night, folks going to parties, pretty much the whole range," she said. "You can drive as much or as little as you like."

Another attraction, compared with driving a taxi, is safety, because customers are screened and no cash is exchanged. So, too, is the opportunity for drivers to shape the job on their own terms.

Driving for Uber "is like a game," said Stephen B. McPhail, 66, a former charter bus driver who lives in Covington, Wash., south of Seattle. "I like to map out how I spend my time to make the most money."

An early riser, he gets up at 4:30 a.m. to land several airport rides. Typically, he said, "I work five hours to make between \$100 and \$150 a day, and I can be done as early as 10 a.m."

In Minneapolis, Ms. Johnson says most of her earnings come from ferrying executives between the airport and major companies in the suburbs. At busy times, she can make around \$40 an hour. Over all, she said, she works about 40 hours a month, grossing around \$600.

"There's no question that the money makes life easier," said Ms. Johnson. "My kids think it's a stitch that I'm doing this."

## A Way to Lock Lost Debit Cards

YOUR MONEY  
ANN CARRNS

Almost everyone with a bank account has encountered this situation: You return home after shopping, or dining out, and discover that your debit card is missing.

Frantic phone calls to stores or restaurants ensue, as you mentally retrace your steps to determine where you may have left the little plastic card.

More banks are now offering a simple tool to protect bank accounts quickly, while the customer figures out where the card might be and retrieves it — or decides it's lost and requests a new one. It is known as a debit card lock, or "on/off" switch, and it requires just a few taps or swipes on a mobile phone.

This month, Bank of America became one of the first big national banks to offer the feature to its debit card customers who use online or mobile banking.

"It's addressing customers' concerns," said Michelle Moore, head of digital banking at the bank.

The lock technology has been available for several years. Malauzai Software says about half of its 350 community bank and credit union clients offer the feature to their customers. Other card issuers offering versions of the feature include USAA and Capital One.

Banks are offering the feature not only to give customers peace of mind, but also to reduce the cost of

issuing new cards, said Al Pascual of Javelin Strategy and Research.

Ms. Moore said fewer than 20 percent of Bank of America's debit card holders call to have a card reissued because it was left behind somewhere. But that is still a large number, she said, because the bank has more than 30 million debit card holders.

Here is how Bank of America's version of the debit card lock works: Users log on to their accounts on a phone or other device and select "Manage debit card settings" under the help menu. An image of the debit card appears, and the user swipes an "on/off" switch to lock the card. The app asks, "Are you sure?" and the customer taps a confirmation

screen to lock the card.

Once the card is locked, it cannot be used to make purchases or withdraw money from automatic teller machines until the user unlocks it. Automatic deposits and bill payments are not affected, Ms. Moore said.

Although the original idea was that consumers would use the debit lock occasionally, in case of a misplaced card, Robb Gaynor of Malauzai Software said many users choose to leave their cards turned off as a default setting and unlock them when they use them.

"They're using it to prevent fraud," he said. "They turn it off. Then, when they check out at Piggy Wiggly, they turn it on."

### Q & A

#### ¶ What if I have a joint account with another family member?

The lock is card-specific. If one card is locked, the others linked to the account will still work — unless the user turns those off as well.

#### ¶ How long does it take to lock and unlock the card?

The feature is intended to work within seconds. In an informal test, a reporter locked a Bank of America debit card using a mobile phone; the card was then rejected by an A.T.M. (The machine spit out the card and displayed a message stating, "This card is not valid.") Then, moments later, while at the A.T.M., the user unlocked the card using the mobile phone. The machine immediately accepted the card and dispensed cash.

#### ¶ Are lock switches available on credit cards?

Some credit cards, including the Discover card and credit cards issued by USAA, offer similar lock features.

## To Start Saving Now, Spend More Money

SKETCH GUY  
CARL RICHARDS

I like buying high-quality things.

And for the longest time, I've suspected that buying high-quality stuff, which perhaps initially was more expensive, actually saved me money in the long run. Recently I found a strong argument in support of my hunch when I came across a quote from Terry Pratchett in "Men At Arms." In the book, Sam Vimes, a police officer from the fictional city-state of Ankh-Morpork, gives us a very compelling financial reason for buying higher-quality things:

"The reason that the rich were so rich, Vimes reasoned, was because they managed to spend less money. Take boots, for example. He earned \$38 a month plus allowances. A really good pair of leather boots cost \$50. But an affordable pair of boots, which were sort of O.K. for a season or two and then leaked like hell when the cardboard gave out, cost about \$10. Those were the kind of boots Vimes always bought, and wore until the soles were so thin that he could tell where he was in

Ankh-Morpork on a foggy night by the feel of the cobbles.

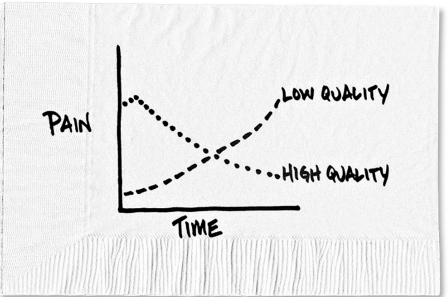
But the thing was that good boots lasted for years and years. A man who could afford \$50 had a pair of boots that'd still be keeping his feet dry in 10 years' time, while the poor man who could only afford cheap boots would have spent a hundred dollars on boots in the same time and would still have wet feet.

This was the Captain Samuel Vimes "Boots" theory of socioeconomic unfairness."

Now this, I thought, was awesome. Paradoxically, you can actually spend less by spending more. I also realized that I've had many experiences with this phenomenon before.

Seventeen years ago, my wife and I were living like poor college students. She was working as a ski instructor, and I was going to school full time. We had just had our first child. We didn't have a lot of extra money, but we loved to ski, and we needed new ski pants.

I had my eye on this pair of ski bibs from a high-end company called Moonstone. At the time,



CARL RICHARDS

Moonstone was making some of the best ski gear that money could buy, but these bibs were expensive. I don't remember exactly how much, maybe just over \$300.

Without even knowing about Sam Vimes, I had this gut feeling that I should buy the Moonstone pants. So we saved and saved and saved and, finally, I bought them.

And I still have them. Whenever I go skiing, that's what I wear. And I can almost guarantee you, if I had bought \$50 pants, they would have been gone before the end of the first season. I would have spent more than twice as much money in the long run.

For those of you who are nodding knowingly, now you have a framework to evaluate your purchases. And for those of you who have been buying the cheap pants, consider this an invitation to start saving money by buying better pants once.