



Citigroup's Bailout A Psychological Boost

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Investors reacted enthusiastically on Monday to news of a proposed \$20 billion government bailout of Citigroup (C). The stock market surged, as Citi shares skyrocketed 57.8%, while the S&P Financials sector soared 18.8%, its greatest single-day performance ever.

But fundamentally, nothing has really improved for Citigroup, or the financial services sector as a whole.

In fact, things are likely to worsen into next year. And, more importantly, haven't we already been through this routine with American International Group (AIG) and others?

Market psychology is a funny thing. It is usually driven by two emotions (namely fear or greed) and has little to do with fundamentals. Sentiment may drive a short-term rally, but that can run out of gas pretty quickly. On the other hand, given the immense amount of bad news in financial markets these days, an external event like this bailout may actually move investors off the sidelines.

There is not much rhyme and reason with market psychology.

Katie Stockton, chief market technician at MKM Partners, said Citigroup's bailout pumped up market psychology largely because we are already in an extremely oversold market.

"The market has needed a positive catalyst (or series of catalysts) in order to mount a significant relief rally," she said.

"Because the market was so oversold ahead of the Citigroup news, it's fair to say it contributed to improvement in sentiment. Oversold markets tend to be more welcoming and responsive to positive news."

Gregg Fisher, president and chief investment officer of **Gerstein Fisher**, a New York investment advisory firm, believes psychology and sentiment can be significant factors on market performance and shouldn't be ignored.

"The market's value has been fluctuating by something like \$1 trillion daily," he said. "The underlying values of those companies are certainly not changing that much.

Much of this price volatility is being driven by psychology -- fear and greed."

In the short run, good news results in more confidence, which can lead to more good news, **Fisher** added. "It creates a feedback loop," he said.

"It can also work similarly on the downside. It may not be logical or rational, but psychology -- which includes the interpretation of external events -- can impact investors and share prices."

Indeed, we find ourselves in a manic depressive market. Huge swings have become the norm and market psychology seems to turn on the proverbial dime.

On Monday, the government bailout seemed to provide relief to the market. The following day, as most shares came back to earth, perhaps some investors realized that things are even worse than they initially thought if the government has to inject such tremendous amounts of money into top-tier financial institutions.

Clifford Michaels, president of Institutional Investment Advisors, a New York money management and financial planning firm, takes a dim view of the bailouts.

"It makes me concerned that huge dominant companies like AIG and Citigroup even need to get bailed out," he said. "Even worse, when we see AIG having to repeatedly return to the well, that sends a really bad signal."

In fact, AIG shares have slumped almost 22% since news of its \$85 billion bailout.

"We are seeing acts of Fed intervention practically every few weeks, almost like it has become a trend," Michaels said. "In this type of environment -- of repeated governmental involvement -- investor psychology shifts from positive to neutral and then goes negative."

Still, Michaels noted that even some of his more conservative clients have responded favorably to the government's bailouts of both AIG and Citigroup, on the presumption that these companies' woes have ended.

"They see only upside for these stocks now," he said.

"They are seeking to speculate on these companies, and that has nothing to do with fundamentals."

Others take a more philosophical view.

"We use news stories to explain the ups and downs of the stock market because we are a cause and effect society," said Joseph "Big Joe" Clark, managing partner at Financial Enhancement Group. "But the bottom line is that money managers are afraid to be caught with cash if the market blasts off. Investors waiting for cheap entry points are afraid to miss the bottom every time the market soars. The fear of America is to the downside, but the fear of asset managers is missing the upside."

Michaels concedes that Citigroup is too large and complex to be allowed to fail, what with its tentacles spread all across the globe.

"If Citigroup collapsed, investor confidence would take a decisive move downward," he said. "But this bailout -- a lifeline, if you will -- doesn't solve their problems. All it does is gives them more time to put their house in order. And hopefully they have a sense of urgency about it."

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