

# Top 10 Factors Affecting the Stock Market

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by [Bethany Gordon](#)

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Many things can affect the stock market. As one thing can start a

ripple effect like a butterfly flapping its wings in the wrong direction, as a theoretical scientist might say so too can ripple effects be seen in the stock market. Factors like the economy and legal scandals are obvious game changers when it comes to analyzing the stock market. Some indicators are not so obvious, however. [Stock analysis services](#) can help you identify stock market prices and fluctuations, but understanding key factors can help you predict prices on your own. Here are some of the best factors that control, sway and stimulate the markets.

### 1. World Events

When anything happens on the international stage, good or bad, it usually affects the American markets. Changes in leadership, whether through elections, violent take-overs or monarchical deaths, can all negatively or positively affect the markets. Exchange rates, trade agreements and shifting international relations can boost the economy and promote spending or, inversely, can cause market panic.

### 2. Economy

A natural indication of economic health is a stable stock market. This model also works vice versa, as a

people have money to invest. The same concept applies to boosts in retail sales. Companies and their stocks do better during the times of year when retail sales are high, such as around Thanksgiving, Black Friday and Christmas. Stocks tend to perform poorly after such holidays when retail sales return to their normal rates.

Interest rates can also affect the stock market's health. For example, if interest rates are high, the middle class must put more of its money into paying off debt. Therefore, these investors have less money for playing the stock market, including investing in retirement savings through mutual funds or bonds.

### 3. Scandals

Nothing gets the attention of the U.S. media quicker than a good-old-fashioned scandal. Insider trading, fraud, cooking the books and other high-end, white collar scams have all collapsed popular companies and negatively impacted the markets in the recent past. Household names, such as Enron and Bernard Madoff, caused plummeting stock prices and created a domino effect with associated businesses and firms. Cheating investors is illegal and leads to jail time, worthless stock prices and large-scale corporate layoffs, which can affect the market and hurt even those who were not involved in the scandal.

### 4. Company News

On a different note, formal company announcements and news can also affect a market trend analysis. Good news or bad news can cause rising stock prices, or it can cause falling prices and rising prices for competing corporations. Company layoffs can reduce consumer trust in the future of a company and result in less-valuable stock. Successful company acquisitions, however, are an indication of growth and can lead to better stock performance.

### 5. Hype

In today's world, press coverage seems to be one of the main factors involved in why a stock market will plummet or rocket. In August 2011, the stock market saw huge upward spikes and downward drops when the United States' credit rating was lowered a couple of points. Likewise, a large-cap industry giant saw its stock price plummet when one of its founders

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cases, neither event would have made much difference without the overabundant media coverage.

Conversely, the media can positively affect the stock market as well injure it; announcements of new technology can start a huge surge of investor funding. Whenever a popular company creates a new gadget or when a widely respected economic genius (such as Warren Buffett) promotes a certain stock or company, hype is sure to ensue. Following CES or an AAPL (Apple) press release, stock prices can soar as investors race to back popular products and innovative companies.

## 6. Politics

Along with world events, internal political events also have an effect on the U.S. stock market. Following the JFK assassination, the markets sank as morale was low and Americans were nervous to invest. The stock market is undoubtedly affected by the national election cycle as well. There tends to be growth during the third year of a Presidency and not as much growth during the first year of any Presidential term. There is some evidence to suggest that with a Democratic President and a Republican Senate, the stock market is more robust as well.

Politics, in terms of actual or implied government support, can also affect stocks. The stock market works within a legal framework. When this framework changes as a result of government regulation or deregulation, volatility can occur. For example, a large part of the mortgage crisis of 2008 was caused by a quasi-governmental institution called the Federal National Mortgage Association (more commonly referred to as Fannie Mae), which played a large role in issuing mortgages to homeowners.

Fannie Mae was known as a government-sponsored enterprise, an in-between state that is both governmentally and publicly traded. The years between 2001 and 2003 saw a boom in housing finance, and Fannie Mae increased the number of home loans to please shareholders. Because of its relationship with the government, investors traded Fannie Mae stock with the implied understanding that if anything ever happened to the company, the

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crisis hit and homeowners were unable to make their mortgage payments, Fannie Mae's share prices tumbled. Eventually, the government bailed the company out, but too late for many shareholders.

### **7. Supply & Demand**

This age-old economic model is extremely important in the world of stocks. When the price of stock is low (or supply is high), investors will buy more, creating a demand for that stock. After a while, the price rises (supply decreases) as investors have proven they are willing to pay a higher amount for successful stocks. When the price is too high, however, demand decreases and investors move on. Sometimes there is a sweet spot when supply and demand are balanced, but inevitably, the battle wages on and supply and demand fluctuate as they have for thousands of years.

### **8. Natural Disasters**

Although they are unpleasant and horrific, natural disasters can actually be good for the economy and the market. Following hurricane Katrina, the markets actually improved and continued to improve in the following months. Hurricane Sandy literally damaged the markets (by physically forcing Wall Street to close) but also initiated growth. The rebuilding efforts after floods, earthquakes, hurricanes and so on actually boost the economy.

### **9. Expectations & Speculation**

Confidence plays a major role in stock trading. Investors who believe in the market are more likely to purchase stocks, take more risks and drive up the price of stocks; when this confidence fails, the market falls. An example of the effects of investor confidence can be seen in the 2008 financial crisis. When investment firms began to collapse, investors lost confidence and refused to take risks and fund investments.

A good way to judge market volatility is to look at investor confidence. Follow the news in the U.S. and around the world to watch for signals that might disrupt investor confidence. You can also read a number of indexes that measure investors' confidence and attitudes toward risk.

Of course, overconfidence can also be dangerous.

flourished, making fortunes for many. People had so much faith in the market that they were borrowing, and going into debt, to purchase more stocks. Over time, the market couldn't cope with the inflated values. Companies were forced to close when the stock market crashed in 1929, people were laid off, and the Great Depression began.

### 10. War & Terrorism

Naturally, fear can change investment habits. After 9/11, people cashed out their investments and values plummeted. Panicked selling stopped after a few days, but it took about two years for the market to

fully recover from the terrorist attacks and the War in Iraq. However, war turned out to be the solution in the case of the 1930s and the Great Depression. An increase in military spending increased demand. A terrorist attack (Pearl Harbor), then spurred the nation into financial recovery during World War II.

## Stock Market Analysis & Protecting Your Investments

Performing a technical analysis of stock market trends can help you can find the best stock options for your portfolio. Most [online stock trading platforms](#) provide you not only with analytical tools but also access to news services and other sources for tracking top stock influencers. Staying aware of the external and internal factors that can cause the market to fluctuate can help you make more informed trading decisions to positively affect your financial success.

Keeping a keen eye on what the higher-ups in companies do with their stock purchases can help you analyze what they are doing to affect the market. Because the CEO, CFO and VPs have greater knowledge about their company's financials, they may start trading stock depending on how their company is looking or behaving. If a company's CEO starts to buy stock in another company, the CEO expects that the value of this company's stock will increase otherwise, why would he or she spend money on that investment?

Certain industries have a massive impact on the stock market as well. The gasoline and crude-oil

manufacturing and transportation of their goods.

This affects the stock market and stock trading heavily, as do skyrocketing prices for certain goods or services.

When riding a trend and following industry investments, it's important to be wary of economic bubbles. An economic bubble is generally defined as a period of high trading volumes of stocks that are above their intrinsic values. Volatility occurs when a bubble pops or prices are corrected. From 1995 to 2000, the U.S. economy encountered the dot-com bubble, which marked the beginning of the internet as a commercial force and the formation of many internet-based companies (referred to as dot-coms). Speculation in dot-coms led to a high influx of capital, and investors were willing to overlook traditional analysis metrics before investing. A majority of dot-coms spent their venture capital without receiving any returns, and a number of market forces subsequently led to a bear market when the dot-com bubble burst.

Between August 8 and August 11, 2011, the U.S. stock market saw its greatest volatility in history. A result of a number of factors, the Dow Jones Industrial Average moved more than 400 points each day. Even years later, the charts for stock market indexes can at times read like the EKG of a person in cardiac arrest. The best way to arm yourself against the worst kind of fiscal fate is to understand what can cause these ups and downs. That knowledge can help you anticipate and act to protect yourself from changes rather than reacting after the damage has begun.

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