

NEWS *for the informed investor*



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Moral suasion and the media: How investors are influenced

Moral suasion is a persuasion tactic used by an authority (i.e. the Federal Reserve Board) to influence and pressure, but not force, banks into adhering to policy. Tactics used are closed-door meetings with bank directors, increased severity of inspections, appeals to community spirit, or vague threats. A good example of moral suasion is when the Fed Chairman speaks on the markets—his opinion on the overall economy can send financial markets falling or flying.

According to Investopedia, moral suasion is often termed 'suasion.' It has been used to persuade banks and other financial institutions to keep to official guidelines. The 'moral' aspect comes from the pressure for 'moral responsibility' to operate in a way that is consistent with furthering the good of the economy. In Australia, the Reserve Bank has shown preference for this type of policy control. In Japan, it is known as 'window guidance' and in the U.S., it is known as 'jawboning'—exercising the persuasive power of talk rather than legislation.

But does the media play a larger role in swaying the opinions of investors than it should be allowed? Given today's technological advances in social media, i.e. Twitter, Facebook, Internet streaming and chat rooms, investors are swayed far too often by the negative sound bite rather than by well-informed conventional journalism. The media should be held to the highest moral standard when reporting information as it relates to finance and refrain from contributing their collective two cents.

Attached are some very interesting articles that help to illustrate the role of media on the stock market's woes over the last 12 months.

http://www.businessweek.com/investor/content/oct2008/pi20081027_137742.htm

http://moneynews.newsmax.com/michael_carr/bernanke/2009/07/24/239692.html

<http://newsinfo.iu.edu/news/page/normal/10389.html>

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