Socionomic Theory: an Alternative to EMH and a Foundation for Technical Analysis

Robert R. Prechter

2014 IFTA Conference
London, England
October 11, 2014
EMH is elegant and internally consistent.

It is not *externally* consistent.
Essence of EMH:

1) External cause
2) Rational reaction
Do interest rates move the stock market?
STOCKS UP, RATES UP

Dow

Federal Funds Rate

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STOCKS UP, RATES DOWN

11.23% Federal Funds Rate

Dow  Jul. 1984-Aug. 1987
+150%

6.73%

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figure 6
STOCKS DOWN, RATES UP

S&P 500

Federal Funds Rate

5.94% -48%

10.06%

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Does war affect the stock market?
DURING WWI, STOCK VALUES ROSE, THEN FELL
Dow/PPI monthly

WWI begins  
U.S. enters war  
WWI ends

© February 2010 Elliott Wave International (www.elliottwave.com)  
PPI data courtesy of Federal Reserve

© 1999-2014 Robert Prechter  www.socionomics.net  Figure 9
During WWII, stock values fell, then rose.

- WWII begins
- WWII ends
- U.S. enters war

DJIA/PPI
monthly

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STOCK VALUES ROSE DURING THE KOREAN WAR

Dow/PPI monthly

Korean War begins

Korean War ends

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PPI data courtesy of Federal Reserve

Figure 11
STOCK VALUES FELL DURING THE VIETNAM WAR

Gulf of Tonkin resolution
Dow/PPI monthly
U.S. evacuates troops from Vietnam
Vietnam War ends

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PPI data courtesy of Federal Reserve

Figure 12
What about peaceful times?
Figure 14

PEACEFUL TIMES
Dow daily

+500%

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MORE PEACEFUL TIMES
Dow daily

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-89%


Figure 15
Do political parties affect the stock market?
Since 1857, the stock market’s average annual gain has been approximately equal under Democrat and Republican presidents.

Average annual return under Democrat presidents: **7.2%**

Average annual return under Republican presidents: **5.9%**

With 1929-32 omitted, Republican average is 7.7%
What about “oil shocks”?
Testing the 52-week correlation of oil and stocks
Energy experts say gasoline could hit $8/gallon if Iran closes strait

USA Today
March 23, 2012

Gas prices could double if Iran acts to close the Strait of Hormuz to oil-tanker traffic near the beginning of next year, a leading energy-consulting firm says. **Brent crude oil prices could briefly hit $240 a barrel** in the first quarter of 2013, said [a] senior research director for Global Economics at HIS Global Insight. “If it did hit $240, you’re looking at about a doubling of where gas prices are now,” said [the] managing director of the global oil group at IHS CERA, the firm’s energy-research arm. “And **the U.S. is at $4**.” The firm’s analysis assumes the strait would be closed at the start of 2013.
Oil prices plunging despite ISIS

September 25, 2014

CNNMoney

Oil prices have fallen sharply over the past few months—even though the terrorist organization ISIS has taken control of some refineries in Syria and Iraq.

Prices haven't shot up since the United States and its allies have started to conduct airstrikes against ISIS oil targets in Syria either.

It may seem strange that prices haven't skyrocketed.

Investors have grown fatigued by worrying about a geopolitical-induced shock that never seems to come to pass.

Oil near its low for year despite turmoil

September 24, 2014

AP

The oil market has lost its jitters.

Some regions around the world are seeing the type of unrest that in the past sent oil prices soaring. Yet oil is down about $15 since mid-summer and near its low for the year, even with escalating violence in Iraq, OPEC's second largest exporter, and multiple rounds of sanctions by Western nations against Russia, the biggest exporter outside of OPEC.
What about terrorist attacks?
TIMING OF ANTHRAX ATTACKS IN THE U.S.
DJIA Weekly

first anthrax attack

“Anthrax Fears Fade”

© 2010 Elliott Wave International
TIMING OF ANTHRAX ATTACKS IN THE U.S.
DJIA Weekly

“Anthrax Fears Fade”

first anthrax attack

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Figure 24
Does inflation make gold go up?
FINANCIAL MARKETS ARE NOT PHYSICS

M1 monthly
up 186% in 21 yrs
gold+silver index
forecast based on
physics: $6170

down 83% in 21 yrs

Gold Plus Silver Index
Prices normalized to
fixed prices of 1934-1966;
starting $ value = 1 oz. gold at
$35/oz., plus 27.1318 oz. of silver at
$1.29/oz., a value of $35 + $35 = $70,
monthly, log scale

off by a factor of 17


Figure 26
Does QE make gold go up?
Gold daily bars

9/13/12
QE3: Fed to buy $40b./mo. mortgages

12/12/12
QE4: Fed to buy $50b./mo. bonds

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Our headline published in 12/30/12:

“BIGGEST INFLATIONARY FED COMMITMENT IN HISTORY PROVIDES ANOTHER SELLING OPPORTUNITY IN METALS”
Conclusion:
Exogenous factors do not regulate financial markets.

Data from the real world are inconsistent with EMH’s causal claim.
Sociomomics
Standard View
Social actions motivate social mood

Socionomics
Social mood motivates social actions
Social mood is an unconsciously shared motivational impulse arising from social interaction independently from events.
The Standard View of Causality (based on mechanics):

*Social events determine the character of social mood.*

*Examples*

“A rising stock market makes people increasingly optimistic.”
“Recession makes business people cautious.”
“War makes people fearful and angry.”
“Scandals make people outraged.”
“The choice of leaders determines the path of the stock market.”
“Upbeat entertainment makes people happy.”

The Socionomic Hypothesis (based on socionomics):

*Social mood determines the character of social events.*

*Examples*

“Increasingly optimistic people make the stock market rise.”
“Cautious business people create recession.”
“Fearful and angry people make war.”
“Outraged people seek out scandals.”
“The path of the stock market determines the choice of leaders.”
“Happy people choose upbeat entertainment.”
The stock market is a meter of social mood.
Figure 38

RESULTS OF A CHANGE IN SOCIAL MOOD
DJIA/GOLD
weekly

Rising stock values;
10 years of peace;
Historical apologies
among religions;
Popular presidents;
Housing boom;
Immigration tolerance;
Corporate heroism

Falling stock values;
Iraq war, terrorism;
Religious conflict;
Low approval of
president and Congress;
Mortgage crisis;
Anti-immigration sentiment;
Corporate scandals
The Relative Timing of Socionomic Actions Provides a Basis for Social Prediction

leading sociometers (stock market)

lagging sociometers (pop culture, macroeconomy, political action)

Increasing Lag Time = Decreasing Precision of Wave Expression

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Expressions of Social Mood
2007-2010

Coincident expression of social mood
(the stock market)

Lagging expressions of social mood
(economic and political consequences)

Dow Jones Industrial Average weekly
and six-month moving average
shifted forward six months

4Q earnings
negative, first time ever

G.W. Bush's
lowest rating

Recession ends
Unemployment at a 28-year high
Record low new-home sales
Tea Party forms

© November 2010 Socionomics Institute. Study by Alan Hall

Figure 40
The 1973-1974 Peak and Decline

5-year low in unemployment;
4-year high in Federal Surplus;
Peaks in U.S. Gross Private Domestic Investment,
Real Disposable Personal Income per Capita, and Real GDP

Coincident expression
of social mood
(the stock market)

Nixon resigns
August 8, 1974

Lagging expressions
of social mood
(expectations, economic and political consequences)

October 8, 1974
Franklin National Bank collapses—the largest in history at that time

1975
33-year high in unemployment;
32-year high in federal deficit;
Lows in U.S. investment, disposable income, GNP

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Figure 41
NEGATIVE MOOD TRENDS CAUSE BEAR MARKETS AND LEAD TO WARS
(Constant-Dollar Dow)

British Stock Prices → U.S. Stock Prices


French Revolution
Napoleonic Wars
Civil War
World War I
Peace
World War II
Vietnam War
Cultural Revolution
Killing Fields
Afghanistan War

© October 2014 Robert R. Prechter
Data courtesy The Foundation for the Study of Cycles

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Figure 42
Timing of Gulf War
Value Line Industrials
Comparable Log Scale

1987-1990
Bear Market

U.S. Enters Gulf War

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Data: Market Timing Report
TIMING OF IRAQ WAR
DJIA Weekly 1999-2007

2000-2002 Bear Market

Congress approves Iraq war
U.S. attacks Iraq

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Figure 44
Incumbents’ Re-Elections and Oustings vs. the Stock Market

Numbers denote incumbent landslide re-elections to a second term. Letters denote incumbent landslide losses. Brackets denote extreme disruptions of the governing status quo.

Social mood regulates both data series.

1 Washington (1792)
2 Jefferson (1804)
3 Monroe (1820)
4 Jackson (1832)
5 Lincoln (1864)
6 Grant (1872)
7 T. Roosevelt (1904)
8 Coolidge (1924)
9 F. Roosevelt (1936)
10 Eisenhower (1956)
11 Johnson (1964)
12 Nixon (1972)
14 Clinton (1996)
15 Obama (2012)

[A] King George III ousted by revolution (1783)
B J.Q. Adams (1828)
C Van Buren (1840)
[D] Divided election; sectionalism (1860)
E B. Harrison (1892)
F Taft (1912)
G Hoover (1932)
[H] Nixon resignation (1974)
I Carter (1980)
“Social Mood, Stock Market Performance and U.S. Presidential Elections: A Socionomic Perspective on Voting Results”

Robert R. Prechter, Jr.
Deepak Goel
Wayne D. Parker
Matthew Lampert

*SAGE Open, 2012*

posted at ssrn.com
Table 2: Top-Grossing Film Released Each Calendar Year

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<tr>
<th>Year</th>
<th>Title</th>
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<td>1920</td>
<td>Over the Hill to the Poorhouse</td>
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<td>The Four Horsemen of the Apocalypse</td>
<td>9.2</td>
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<td>1922</td>
<td>Robin Hood</td>
<td>2.0</td>
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<td>1923</td>
<td>The Covered Wagon</td>
<td>3.6</td>
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<td>1924</td>
<td>The Sea Hawk</td>
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<td>1925</td>
<td>The Big Parade</td>
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<td>1926</td>
<td>Alamo</td>
<td>3.0</td>
</tr>
<tr>
<td>1927</td>
<td>The Jazz Singer</td>
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<td>1928</td>
<td>The Singing Fool</td>
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<td>1929</td>
<td>The Broadway Melody</td>
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<td>It Happened One Night</td>
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<td>Top Hat</td>
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<td>1936</td>
<td>How to Become a Detective</td>
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<td>1937</td>
<td>Snow White and the Seven Dwarfs</td>
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<td>1938</td>
<td>You Can't Take It With You</td>
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<td>1939</td>
<td>Gone with the Wind</td>
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<td>1940</td>
<td>Pinocchio</td>
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<td>1941</td>
<td>Sergeant York</td>
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<td>1942</td>
<td>Bambi</td>
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<td>1943</td>
<td>This is the Army</td>
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<td>1944</td>
<td>Going My Way</td>
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<td>1945</td>
<td>The Bells of St. Mary's</td>
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<td>1946</td>
<td>Song of the South</td>
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<td>1947</td>
<td>Forever Amber</td>
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<td>1948</td>
<td>The Snake Pit</td>
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<td>1949</td>
<td>Samson and Delilah</td>
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<td>1950</td>
<td>Cinderella</td>
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<td>1951</td>
<td>Quo Vadis?</td>
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<td>1952</td>
<td>The Greatest Show on Earth</td>
<td>36.0</td>
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<td>1953</td>
<td>Peter Pan</td>
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<td>1954</td>
<td>White Christmas</td>
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<tr>
<td>1955</td>
<td>Lady and the Tramp</td>
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<tr>
<td>1956</td>
<td>The Ten Commandments</td>
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<td>1957</td>
<td>The Bridge on the River Kwai</td>
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<td>1958</td>
<td>South Pacific</td>
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<td>1959</td>
<td>Ben-Hur</td>
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<td>1960</td>
<td>Swiss Family Robinson</td>
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<td>1961</td>
<td>101 Dalmations</td>
<td>153.0</td>
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<tr>
<td>1962</td>
<td>The Longest Day</td>
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<td>1963</td>
<td>Cleopatra</td>
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<td>1964</td>
<td>Mary Poppins</td>
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<td>1965</td>
<td>The Sound of Music</td>
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<td>1966</td>
<td>The Bible</td>
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<td>1967</td>
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<td>1968</td>
<td>Funny Girl</td>
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<td>1969</td>
<td>Butch Cassidy and the Sundance Kid</td>
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<td>1970</td>
<td>Love Story</td>
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<td>1971</td>
<td>Betsy</td>
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<td>1972</td>
<td>The Godfather</td>
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<td>1973</td>
<td>The Exorcist</td>
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<td>1974</td>
<td>Blazing Saddles</td>
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<td>1975</td>
<td>jaws</td>
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<td>1976</td>
<td>Rocky</td>
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<tr>
<td>1977</td>
<td>Star Wars Ep. IV: A New Hope</td>
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<td>1978</td>
<td>Grease</td>
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<td>Kramer vs. Kramer</td>
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<td>1980</td>
<td>Star Wars Ep. V: The Empire Strikes Back</td>
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<td>1981</td>
<td>Raiders of the Lost Ark</td>
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<td>1982</td>
<td>ET: The Extra-Terrestrial</td>
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<td>1983</td>
<td>Star Wars Ep. VI: Return of the Jedi</td>
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<td>1984</td>
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<td>1985</td>
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<td>1986</td>
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<td>1987</td>
<td>3 Men and a Baby</td>
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<td>1988</td>
<td>Rain Man</td>
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<td>Batman</td>
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<td>Aladdin</td>
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<td>1993</td>
<td>Jurassic Park</td>
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<td>1994</td>
<td>The Lion King</td>
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<td>1995</td>
<td>Toy Story</td>
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<td>1996</td>
<td>Independence Day</td>
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<td>1997</td>
<td>Titanic</td>
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<td>1998</td>
<td>Saving Private Ryan</td>
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<td>2000</td>
<td>How the Grinch Stole Christmas</td>
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<td>2001</td>
<td>Harry Potter and the Sorcerer's Stone</td>
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<td>2002</td>
<td>Spider-Man</td>
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<td>2003</td>
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<td>2005</td>
<td>Star Wars Ep. III: Revenge of the Sith</td>
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<td>2006</td>
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<td>2007</td>
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<td>2008</td>
<td>The Dark Knight</td>
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<td>2009</td>
<td>Avatar</td>
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<td>2010</td>
<td>Toy Story 3</td>
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<td>2011</td>
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<tr>
<td>2012</td>
<td>The Hunger Games</td>
<td>233.0</td>
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SOCIAL MOOD REGULATES THE STOCK MARKET AND TASTES IN FILM

Titles and Timing of Each Year’s Top-grossing Film, if Dark-Themed

quarterly bars, log scale

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Figure 48
In none of these cases does either variable control the other. A hidden variable—social mood—controls both.
The character of lagging social actions is highly predictable.

News doesn’t predict the stock market; the stock market predicts the news.
Testable, Falsifiable, Hypotheses of Socionomics

1) Preceding trends in the stock market predict election results, wars, peace and the macroeconomy better than election results, wars, peace and the macroeconomy predict ensuing trends in the stock market.

2) Social actions that take time to mobilize—such as the expansion and contraction of business and the initiation of wars—tend to lag actions that express social mood more immediately, such as buying and selling stock.

3) Claims and assumptions favoring exogenous causes of stock market trends will fail to survive testing.

4) At times when both endogenous and exogenous cause explanations of types of social action such as stock market movement, election results, wars, peace and macroeconomic trends appear plausible, the endogenous-cause explanation will almost always better fit the data.

5) Decision-making in the economic marketplace usually results in success, while decision-making in the financial marketplace usually results in failure.

6) Different parts of the brain are involved in economic vs. financial decisions.

7) Since unconscious social mood motivates social action, changes in social mood precede changes in social action.

8) The closer a social mood trend comes to termination, the more certain most forecasters become that social trends accompanying it will continue.
Socionomic Theory of Finance
The Price/Demand Dichotomy in Economic vs. Financial Markets
Economic Market: Prices Trend Inversely to the Number of Customers and Their Holdings

Note. Data from the Survey of Consumer Finances and the Bureau of Labor Statistics. Adapted with permission.
Financial Market: Prices Trend in the Same Direction as the **Number of Owners** of Stock

Source: James M. Poterba.

Note: Annual survey respondents were limited to individuals who are heads of household or married to heads of household.

Data from the Survey of Consumer Finances. Adapted with permission.
Financial Market: Prices Trend in the Same Direction as Investors’ Relative Holdings of Stock

Standard & Poor’s 500 Stock Index/PPI ("constant dollar" value)

Stocks as a Percentage of Household Financial Assets

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www.socionomics.net
Financial Market: Prices Trend in the Same Direction as **Volume**
Economics: How Price Relates to Aggregate Demand for Goods & Services

Finance: How Price Relates to Aggregate Demand for Investments

Figure 59
Why is the price/demand relationship in finance the opposite of that in economics?

**Economics:**

*Consumers* are *knowledgeable* about their own values, producing relative *certainty*, so they can *reason*.

**Finance:**

*Investors* are *ignorant* of others’ values, producing *uncertainty*, so they *herd*.

Investors herd in response to changes in social mood.
The Equilibrium/Dynamism Dichotomy in Economic vs. Financial Markets
EQUILIBRIUM IN ECONOMICS:
Opposition between producers and consumers, deriving from conscious utility maximization, produces a tendency towards equilibrium in the market for utilitarian goods and services.
In economics, *relative* pricing also seeks equilibrium and is fairly stable.

One price is a benchmark for another.
In the stock market, there are no useful benchmarks of value.
Figure 65

S&P Price/Earnings Ratio
using trailing 12-month earnings
(Price of $1 Worth of Annual S&P Earnings)

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www.socionomics.net
Figure 66

DJIA Dividend Yield, inverted
(Price of $1 Worth of Annual Dividends from DJIA)
1) Financial markets have NO reliable benchmarks of price or value.

2) There are NO periods of equilibrium, only unceasing dynamism.

So, investors seem not to value stocks primarily rationally, as EMH claims.

Economics and finance are different.
Economics:
Price is important. It *regulates* rational buying (consumer) and selling (producer) behavior.

Finance:
Price is irrelevant. It is a *byproduct* of non-rational impulses among investors to buy and sell.
The Elliott Wave Model of Financial Price Fluctuation
Elliott’s Drawing (1940)
How the Elliott wave model relates to bubble theories.
What Financial Valuations Would Look Like under Most Bubble Theories

Bubble

Equilibrium
Rational pricing

Panic

Bubble

Panic

Figure 74
CYCLE-DEGREE FIFTH WAVES ARE “BUBBLES”
U.S. Stock Prices since 1780
annual, log scale

Wave V
Financial-Asset Mania

Wave V
Stock Mania

Wave V
“Canal Mania”

Socionomist forecasts
asset mania

Data courtesy Foundation for the Study of Cycles, CQG
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Figure 75
Under the Elliott Wave Model:
— No exogenous shocks
— No exogenous triggers
— No exogenous catalysts
— No feedback loop
— No qualitative changes in motivation, only in result

— System provides its own “shocks”.
— Price changes are not random but adhere to an organizing principle.
— Prices are probabilistically predictable.
Herding
Groups of People in Finance Who Herd

Individual Investors
Options Traders
Small Futures Traders
Large Futures Traders
Newsletter Advisors
Mutual Fund Managers
Hedge Fund Managers
Economists
Government
The Fed
Government herds

THE SOCIONOMIC TIMING OF MAJOR INVESTMENT LEGISLATION
Dow
monthly, log scale

Top Arrows: Expansive Legislation
Bottom Arrows: Restrictive Legislation

- * Financial Services Modernization Act
- Commodity Futures Modernization Act
- Securities Litigation Uniform Standards Act
- Private Securities Litigation Reform Act
- Public Company Accounting Reform and Investor Protection Act
- Insider Trading and Securities Fraud Enforcement Act
- Employment Retirement Income Security Act
- Securities Investor Protection Act
- Investment Company Act and Investment Advisors Act
- Banking Act and Securities Exchange Act
- * These laws combined commercial and investment banking. They both occurred near the end of a Cycle degree wave V.

© April 2011 Elliott Wave International

Figure 79
Mood at the Fed
Rising Social MoodTickles Fed Funnybone
Dow Jones Industrial Average (left scale) versus instances of laughter in FOMC Meetings (right scale) updated through 2009

Dow Jones Industrial Average
monthly closes, log scale

June 1981—Volcker sets federal funds rate to a record 19%

August 1979, Volcker appointed Chairman

1982—Long-term unemployment highest since Great Depression

Greenspan Appointed August 11, 1987

February 1991, [Laughter/roofs]

V

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Figure 80
The only sub-group that does not consistently herd is the “Commercials”.

Table 1: Summary of Positions of Six Theories of Herding on Eight Theoretical Dimensions

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Social Psychology</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes/No</td>
<td>Yes/No</td>
<td>Yes/No</td>
<td>?</td>
<td>Yes</td>
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<tr>
<td>Information theory</td>
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<td>Yes</td>
<td>Yes/No</td>
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<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>Ethological</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>?</td>
<td>Yes</td>
</tr>
<tr>
<td>Econophysics</td>
<td>?</td>
<td>Yes</td>
<td>No</td>
<td>Yes/No</td>
<td>Yes/No</td>
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<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Medical Model</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes/No</td>
<td>Yes</td>
</tr>
<tr>
<td>Socionomics</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

The herding impulse is a blunt tool of survival, maladapted to finance.

Bubbles are not rational.
Crowds are not wise.
Corollaries to the Socionomic Theory of Finance

1) Investors are herding all the time, not just during bubbles and crashes.

2) Rationalization is constant.

3) Agents are homogeneous.
   - No investors vs. traders
   - No technicians vs. fundamentalists
   - No smart money vs. dumb money
   Differences in herding and rationalizing are *quantitative*, not qualitative

4) Bubbles and crashes are consistent with *non-rational risk aversion*, not rational assessments of risk.

5) There is no memory of social mood.
Economics and finance are two separate fields

(MICRO) ECONOMICS
(Utilitarian Goods and Services)

FINANCE
(Investments)

Features at the Individual Level
Motivation (goal): Survival and Success
Participants: Producers and Consumers
Consumers’ Orientation: One’s Own Values
Decisions: Independent
Context: Knowledge and Certainty
Means: Thoughtful Maximizing of Utility
Mental State: Conscious
Mechanism: Reason
Ultimate Result: Survival and Success

Features at the Aggregate Level
Rational Valuation
Objective Values
Equilibrium and mean reversion
Price Regulates Demand
Constraint: The Invisible Hand
Product: Prosperity and Stability

Features at the Individual Level
Motivation (goal): Survival and Success
Participants: Investors
Investors’ Orientation: Others’ Values
Decisions: Dependent
Context: Ignorance and Uncertainty
Means: Herding
Mental State: Unconscious
Mechanisms: Impulsion, Rationalization
Ultimate Result: Losses and Failure

Features at the Aggregate Level
Pre-Rational, Impulsive Valuation
Subjective Values
Dynamism
Demand Regulates Price
Constraint: The Wave Principle
Product: Boom and Bust at all degrees

Figure 84
UTILITARIAN ECONOMICS
(conscious, reasoned)
(context of knowledge and certainty)

RATIONAL
Neocortex

“Maximize utility”

EMOTIONAL
Limbic System

“Follow the herd”

PRIMAL
Basal Ganglia

FINANCE,
INCLUDING MACROECONOMICS
(unconscious, impulsive)
(context of ignorance and uncertainty)

© Prochter 2004
Sources: Paul Maclean, Paul Montgomery
Context Can Change a Market from Economic to Financial

**Housing** is a *good*, a consumption item.
In a free market, prices normally follow the laws of economics.

When government provided unlimited credit,
removing the constraint on prices,
houses became perceived as *investments*.
EMH asserts that economic laws rule finance.

STF proposes that financial laws govern finance.
# Contrasting Models of Finance

<table>
<thead>
<tr>
<th>Efficient Market Hypothesis (EMH)</th>
<th>Socionomic Theory of Finance (STF)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Objective, conscious, rational decisions to maximize utility determine financial values.</td>
<td>1. Subjective, unconscious, prerational impulses to herd determine financial values.</td>
</tr>
<tr>
<td>2. Financial markets tend toward equilibrium and revert to the mean.</td>
<td>2. Financial markets are dynamic and do not revert to anything.</td>
</tr>
<tr>
<td>3. Investors in financial markets typically use information to reason.</td>
<td>3. Investors in financial markets typically use information to rationalize mood-induced imperatives.</td>
</tr>
<tr>
<td>4. Investors’ decisions are based on knowledge and certainty.</td>
<td>4. Investors’ decisions are fraught with ignorance and uncertainty.</td>
</tr>
<tr>
<td>5. Exogenous variables determine most investment decisions.</td>
<td>5. Endogenous social processes determine most investment decisions.</td>
</tr>
<tr>
<td>6. Financial prices derive from individual decisions about value.</td>
<td>6. Financial prices derive from trends in social mood.</td>
</tr>
<tr>
<td>7. Financial price changes are essentially random.</td>
<td>7. Financial prices adhere to an organizing principle at the aggregate level.</td>
</tr>
<tr>
<td>8. Financial prices are unpredictable; the character of news is unpredictable.</td>
<td>8. Financial prices are probabilistically predictable; so is the character of news.</td>
</tr>
</tbody>
</table>
STF is elegant and internally consistent.

It is also externally consistent.
Most “fundamentals” are results, not causes.

Mood change is causal. It is also patterned, providing a basis for technical analysis.
The Socionomics Film Series
Volume 4

Robert Prechter at Oxford, Cambridge and Trinity
Offering a New View of Financial and Social Causality
Slides available at:

www.socionomics.net/wave/14IFTA