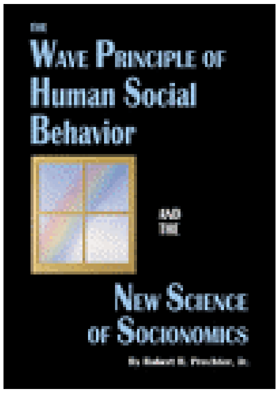

<u>The Wave Principle of Human Social Behavior and the New Science of Socionomics</u> (1999), Prechter

In the 1930s, R.N. Elliott, discoverer of Elliott Wave Principle, used it to forecast the stock market. Elliott's successor, Robert Prechter, observed that the stock market records far more than just price moves. It reflects the ups and downs of social mood. Prechter called this application of the Wave Principle socionomics, the science of social prediction.

It is impossible to give a one-page summary of a 400-page book. As such, I am only able to comment on a few of the many great insights, contained in this work.

- Chapter 8, which focuses on the emotional (limbic), instinctive (basal ganglia) and logical (neocortex) parts of the brain, is riveting. Consider the following, regarding limbic system: “the limbic system has the capacity to generate our-of-context, affective feelings of conviction that we attach to our beliefs *regardless of whether they are true or false*.” (Emphasis his) Pg 151
- A few pages later, we see, “In the aggregate, apparent expressions of cold reason by professionals follow herding patterns as well. To forecast on the basis of the current sentiments of the herd are to ‘forecast’ the present mood, not future events. Success is simply a matter of whether the present mood maintains, which it usually does not.” Page 154 – 155
- Though Ralph Elliot’s work has been around since the 1930’s, there remains some criticism of the Wave Principle. Yet, the fact that it is built upon the Fibonacci sequence and shows patterns that are found in so many aspects of our universe, lends evidence to its validity. Fractal geometry, discovered by Dr. Benoit Mandelbrot, is foundational to the Wave Principle. For those who still contend that it is not exact enough, Prechter himself speaks to this fact as well, “In fact [trends] are *highly* predictable in both *general* and *probabilistic* terms and *somewhat* predictable in *specific* terms...The Wave Principle guarantees reliable forecasting only of *probabilities*. It allows us to predict some aspects of the future and not others.” (Emphasis his) Pg. 404
- The unfortunate truth about the world of professional money management is, “When herding stock market investors have the bit in their mouths, rational individuals are powerless to stop the stampede.” Though the professional manager may desire to rise above the noise, “In most cases, he cannot. His choice is this: He can raise cash in a bull market and buy stocks in a bear market, which would be prudent investing, or he can stay in business. That is his choice. If he acts counter to the market’s trend, then his customers leave in droves. They place their funds with managers whose policies reflect their feelings. Rationality, to most managers, means getting rich giving customers what they want, not losing most of them with prudent investing. The heeding majority remains in complete control of the bulk of professionally managed money” Pg. 355