

PROGRESS IN SOCIOECONOMICS

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Socionomists propose alternative to the Efficient Market Hypothesis

The *Journal of Behavioral Finance*, 8(2), pp. 84-108, recently published Robert Prechter and Wayne D. Parker's landmark paper, "The Financial/Economic Dichotomy in Social Behavioral Dynamics: The Socionomic Perspective." It presents for the first time an alternative theory to the Efficient Market Hypothesis—the long-standing yet deeply flawed model of financial markets embraced by most economists.

Prechter and Parker's socionomic theory of finance explains why people consistently make less-than-rational financial decisions, while behaving more rationally when shopping for economic goods, such as shoes and bread. Read the abstract [here](#).

Prechter recently spoke with Molly Schilling to discuss some of the thinking that went into the paper. The interview appeared in *Technically Speaking*, a publication of the Market Technicians Association. Here is an excerpt:

MS: How does socionomics fit into [your view of financial markets]?

RP: Among many other things, socionomics explains why the market reaches valuations that later generations describe as absurdly low or absurdly high, like today.

MS: But that's not so unusual.

RP: That's exactly the point. It's normal for financial markets to careen wildly from overvaluation to undervaluation. But can you recall this kind of thing happening in markets for sandwiches or lawnmowers?

MS: Well, Starbucks is expensive.

RP: So is everything else, thanks to inflation. But the price of a cup of coffee is not *volatile*, either over time or relative to other things, such as fried eggs and toast. Investment prices leap and fall continually, over time and relative to each other. But in the market for goods and services, prices are relatively stable. You don't see the price of pistachio at the Westport ice cream shop soaring and crashing every few days or months. You pretty much know what the price of a scoop will be before you walk in.

MS: I wouldn't buy pistachio if it were twenty dollars a scoop. I'd buy something else. But if it were a nickel, I'd stock the freezer.

RP: Precisely. In the marketplace for goods and services you use your reasoning power to decide whether a purchase is a good use of your money. This is called "maximizing the utility of your resources." When steak gets too pricey, you buy chicken, and vice versa. When there's a sale, you rush out to buy more. But—and this is crucial—when prices go down in the stock market—in other words, when there's a sale—almost everyone wants to own fewer shares. And when prices go up, investors buy more. See the difference? Theoreticians either ignore this fact or call buying high and selling low a "temporary anomaly," but it is the rule in financial markets. And it's the opposite of the rule that holds in economic markets. This is a fundamental difference between the two.

MS: O.K., so that's why your paper is titled "The Financial/Economic Dichotomy."

RP: Right. And in the world of financial theory, this is a radical idea.

Read more of the interview [here](#).

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Socionomics Foundation seeks funding for research program

The Socionomics Foundation is in the midst of a fundraising campaign designed to support the organization's many initiatives. Donors around the globe have already made contributions.

One of the items on the research agenda is a collaborative effort with scientists who use brain-imaging technologies. The experiments will test whether different brain regions are active during independent decision-making versus decision-making that arises due to herding behavior.

Formed four years ago, the Socionomics Foundation is a 501(c)(3) non-profit organization dedicated to advancing socionomics through providing education, funding research and exploring how socionomics can benefit individuals and institutions by anticipating social and cultural change.

Your support is vital to help ensure that the science continues to develop. Please consider contributing to the Socionomics Foundation.

To be a part of this undertaking, visit www.socionomics.org/donations or call Matt Lampert at (800) 336-1618 x3007. He would be delighted to discuss the Foundation, its upcoming work and its funding needs with you.

Cambridge professor tests herding theory

One of the key tenets of socionomic theory is that a herding impulse causes people to make non-rational choices when they face uncertainty, such as in financial markets. In other words, investors don't make rational decisions; they herd. University of Cambridge professor Michelle Baddeley is putting this theory to the test in a series of studies that use fMRI brain scanning technology to examine which areas of the brain are active when people make financial decisions.

These studies simulate a trading environment where subjects are asked to choose between two stocks. While undergoing a brain scan, the participants are shown historical stock price information concurrently with the investment decisions of up to four other people. The herding influence on decision-making and brain activation will be assessed through logit estimations.

Dr. Baddeley hypothesizes that brain regions other than those involved in rational thought will be active when participants exhibit herding behavior. A preliminary testing stage that did not involve fMRI scans already shows that subjects often side with the herd when choices are ambiguous.

If further evidence confirms that herding is the outcome of impulsive psychological factors, it will suggest that models of investment behavior based upon assumptions of strictly rational investors have little practical relevance.

Air Force officer forecasts collapse in America's global power

Maj. Tyson Hummel predicts a major shift in America's worldwide standing in his paper, "Is the Science of Socionomics Able to Portend a Change in the United States' Economic Might?" The paper was written as his master's thesis at the Air Command and Staff College.

Using socionomics and the Elliott wave model, Hummel argues America is at a critical juncture in its history, nearing the end of its time of prominence before entering a long decline.

Maj. Hummel spoke with us about socionomics and his perspective on the future of the U.S.

SI: So that our readers get to know you a bit, give us some of your background.

TH: I'm currently a major in the United States Air Force and have spent the majority of my career as a KC-10 pilot. I'm currently assigned as an academic

Call for Academics

If you're an academic with an interest in socionomics, Dr. Wayne Parker, the Socionomics Foundation's executive director, would like to hear from you. "I'd like to make sure that we get our published papers into the hands of our academic colleagues as quickly as possible," Dr. Parker says. "We are also interested in funding research related to socionomics and in pursuing collaborative experimental work. I'd welcome the chance to put all interested academics on my contact list so that they can stay updated on these opportunities. We've already made many mutually beneficial contacts with academics, and have funded several professors to pursue their research interests. This is one of the most stimulating aspects of my job." To place yourself on Dr. Parker's contact list, please email him at wdparker@socionomics.org.

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instructor and advisor to the Air Command and Staff College and am stationed at Maxwell Air Force Base in Alabama.

SI: What sparked your interest in socioeconomics?

TH: I would say the interest in socioeconomics grew with my desire to understand cycles of change. The best explanation I have been able to find up to this point is the Elliott Wave Principle and the concomitant field of socioeconomics.

SI: Where is the United States right now in terms of its worldwide economic and military standing?

TH: The title of my paper asks whether socioeconomics is able to portend a change in the United States' economic might. It's my opinion our nation is displaying all the internal signs of a superpower that is in the very late stages of its expanding life cycle.

The leaders I've listened to are concerned. Even though these are some of the most powerful people in the world, I get the feeling that they are as frustrated as the rest of us with where things regarding our nation and military reside today. So the question I ask myself is this: "If they are unable to change things tangibly the way they believe they need to be changed, then wouldn't that mean they were along for the ride on this cycle of growth/decay?" The answer I keep coming up with is "Yes." The pattern of national growth, maturity, and decline is a pattern unto itself. And it is my opinion that Elliott wave theory and socioeconomics are part of the answer in identifying that pattern.

SI: What can military planners do to prepare for the future?

TH: I would conjecture to say that leaders will continue to be forced to make ever tougher decisions regarding shrinking real budgets and military capability. My paper suggests that those decisions be made now while we still have a choice.

Maj. Hummel's complete socioeconomic analysis of America's future is available [here](#).

Socioeconomic insight captivates Maine College of Art students

A friend of the Socioeconomics Institute recently made a presentation on socioeconomics to students at the Maine College of Art. After a screening of David Edmond Moore's socioeconomics documentary, *History's Hidden Engine*, Alastair J. MacDonald spoke about the socioeconomic hypothesis and how it can be applied to a variety of social and cultural phenomena.

MacDonald reports that his presentation, slated to take 90 minutes, was extended an extra hour and a half due to vibrant discussion during the question-and-answer session.

He has been invited to return to the college later this year to give a follow-up presentation.

If you plan to make a socioeconomics-related presentation, the Institute would be happy to review and supplement your materials. For information, email institute@socioeconomics.net.

Scientist predicts a reversal of the trend toward globalization

Dr. John L. Casti's presentation at the Cycles and Patterns in Business and Finance Conference depicted and expanded upon Elliott Wave International's forecast of a reversal in the trend toward globalization. He explained that as the global mood turns increasingly negative and nations grow more antagonistic toward one another, globalization will wane as trends toward protectionism and nationalism take over.

Dr. Casti's research-based consulting firm, The Kenos Circle, hosted the conference. Casti is also a senior research scholar at the International Institute for Applied Systems Analysis in Vienna.

Uncertainty management, philosophy and social mood throughout history

In his latest book, Dr. Michael K. Green argues that social mood drives the philosophical systems that societies embrace. The book is titled *How Do We Create a Philosophical Cosmos for Acting Socially and Being Happy? Four Strategies for Living in an Uncertain World* (Edwin Mellen Press, 2007).

Of Green's book, John Casti writes:

"In this volume, Michael Green has focused on the cyclical structure of the patterns of social change. As Green emphasizes, human beings live in environments filled with various uncertainties because the ability of humans to know and control their circumstances is limited. He argues that the philosophies of Kant, Hume, Aquinas and Swedenborg are expressions of four basic uncertainty management strategies.

"He has taken great pains to present here a theory of agency and sociality that serves as a basis for the wave-like character of social change and the individuality of the component waves of the pattern."

Dr. Michael K. Green is a professor of philosophy at the State University of New York at Oneonta. He is currently on research sabbatical at the University of Cambridge due, in part, to funding from the Socionomics Foundation. To purchase a copy of his latest book, [click here](#).

Worth mentioning

A brief article by Robert R. Prechter, Jr. and Dr. Wayne D. Parker in the January/February issue of *Worth* magazine highlights the socionomic insight as applied to finance. Prechter and Parker discuss the influence of herding, social mood and human psychology on investment decisions.

They observe that financial media commentators talk about the markets 'round the clock, working overtime to rationalize market movements based on such things as earnings reports, Federal Reserve actions and political events. However, these rationalizations, they note, are always given after the fact.

Prechter and Parker make the point that only socionomics can generate reliable explanations for market movements before they happen while also offering a consistent theoretical framework to understand why financial markets behave as they do.

Stay informed of the latest developments in socionomics, check out www.socionomics.net.

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