

PROGRESS IN SOCIONOMICS

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Table of Contents

- 1... Prechter and Parker paper now available
- 1... Professor introduces accountants to socionomics
- 1... Legislators turn to socionomics for answers in real estate crisis
- 2... Singapore sends socionomics to the silver screen
- 2... Waves of war
- 2... Nuclear scientist discusses socionomics
- 3... Parallel revolutions in the social and physical sciences continue

Prechter and Parker paper now available

For the first time since its publication, our colleagues at the Socionomics Foundation are making Robert Prechter and Wayne D. Parker's paper, "The Financial/Economic Dichotomy in Social Behavioral Dynamics: The Socionomic Perspective," available at no cost.

The paper, originally published in the *Journal of Behavioral Finance*, proposes an alternative theoretical framework to the Efficient Market Hypothesis and provides a basis for understanding the differences between economic and financial markets.

This work lays the theoretical foundation for further scientific research in the fields of finance and socionomics. It applies several cornerstones of socionomic theory to finance, including the importance of uncertainty in financial decision-making and explications of the roles of herding and rationalization among participants in financial markets.

We are pleased to recommend this important work. To read Prechter and Parker's paper, visit www.elliottwave.com/single_issues/pdf/JBF_Financial-Economic-Dichotomy.pdf.

Professor introduces accountants to socionomics

Dr. Dennis Elam, professor of accounting at Texas A&M-San Antonio, continues to introduce his students and colleagues to the socionomic perspective. Dr. Elam routinely employs socionomics in the classroom to illustrate how changes in endogenously-regulated social mood

motivate social action. As an outgrowth of classroom discussions, he also maintains a blog where the socionomic insight frequently informs his commentary.

In December, Elam gave a presentation to the Institute of Management Accountants' San Antonio Chapter. The first hour of his talk was on derivatives; the second hour was devoted to socionomics. Elam reports that nearly all of the audience discussion following his speech centered on socionomics.

"Clearly the group found that more interesting," said Elam. Discussion topics ranged from how fashion reflects social mood to the Wave Principle's utility for forecasting social events. Elam says that while not everyone left the meeting a socionomist, they nevertheless gained exposure to a novel tool for understanding society.

Elam is now considering putting together a continuing professional education course on socionomics in response to the interest his presentation generated. If you live in the San Antonio area and are interested in such a course, you can contact Elam directly at dennis.elam@tamuk.edu.

If you would like to present socionomics to an academic or professional organization, the Socionomics Institute will consider making graphics available as resources allow. To request materials, write to institute@socionomics.net.

Legislators turn to socionomics for answers in real estate crisis

In December, State Senator Chip Pearson invited Robert Prechter to speak before the Georgia legislature's Joint Economic Development

Committee about the ongoing real estate crisis. The lawmakers assembled ten speakers to provide their perspective on the cause of the crisis, where the real estate market is headed and the prescriptions available to state governments to mitigate the damage from the imploding real estate market.

Prechter's view is that an increasingly optimistic social mood generated a climate of confidence in which borrowers were certain they could repay loans—even if they were unable to afford a down-payment—and lenders were sure that the debtors were capable of satisfying their obligations. Social institutions, such as Fannie Mae, Freddie Mac, Ginnie Mae and the twelve Federal Home Loan Banks, likewise affected by the climbing mood, lowered lending standards, further fostering the run-up in credit. The Federal Deposit Insurance Corporation's guarantees reduced the likelihood that depositors would prudently scrutinize banks to determine if their money was being handled safely. Real estate became a mania in which homes were viewed as investments instead of consumption goods, and mortgages were securitized and traded. It was considered common knowledge that real estate prices always go up.

When social mood changed, however, so did behavior. Lenders became more conservative, borrowers began to question their ability to repay, the value of mortgage-backed securities plummeted, and half-built neighborhoods stood as ghostly reminders of the confidence that once ruled the marketplace.

Prechter offered several suggestions to the lawmakers. Despite his self-described "radical" prescriptions, the legislators displayed an openness to Prechter's ideas, as evidenced by the 30-minute question-and-answer session that followed his 25-minute speech.

If you would like to watch Prechter's presentation, a video of his speech is included with a subscription to [The Elliott Wave Theorist](#).

Singapore sends socionomics to the silver screen

The Singapore government's International Risk Assessment and Horizon Scanning Symposium is an annual event that brings together academics and social forecasting experts to share strategies for meeting the challenges of the future. At the 2008 symposium, held in October, attendees watched a segment about forecasting election outcomes from David Edmond Moore's socionomics documentary, *History's Hidden Engine*.

In the segment, socionomists make the case that a nation's stock market, as a meter of social mood, can forecast the winner of presidential elections involving an incumbent. For details on how the socionomic hypothesis can be applied to elections, see the [Fall 2008 issue](#) of *Progress in Socionomics* or [watch History's Hidden Engine online](#) in its entirety with your free subscription to this publication.

Waves of war

The American military employs scores of counter-terrorism analysts to anticipate when Al-Qaeda is likely to attack an American target—and for good reason. Knowing when an attack is imminent could give forces the advance warning necessary to prevent catastrophe. In his Special Report, "The Waves of War," Mark Galasiewski illustrates how understanding social mood can give military strategists an edge when fighting Al-Qaeda:

Osama bin Laden and key Al-Qaeda leaders may be Arabs, but for most of the past 30 years, they have lived with the Pashtun and other peoples of the former Afghan *Mujahideen*, who have long been supported by Pakistan. So it makes some sense that their activities would ebb and flow with [Pakistan's primary stock index, the Karachi Stock Exchange 100].

Indeed, Galasiewski uncovers a correlation between the KSE-100 and fatalities from Al-Qaeda attacks on American targets. Generally speaking, when the index rises, there is little violence; when the index falls, attacks tend to occur. More specifically, the magnitude of the attack, in terms of the number of fatalities and the size of the target, is related to the degree of the stock market setback and therefore to the size of the trend toward negative social mood.

You can read Galasiewski's forecast for what the future has in store for Al-Qaeda attacks, the KSE-100 and the rest of the Asian markets in his monthly publication, [The Asian-Pacific Financial Forecast](#).

Nuclear scientist discusses socionomics

By day, Michael Flagg is a nuclear engineer at the University of Missouri Research Reactor Center. In addition to nuclear science, his other passion is socionomics. He frequently blogs about social events from a socionomic perspective and was kind enough to sit down with us to discuss how he uses socionomic theory in his daily life.

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Socionomics Institute: Do you remember the first time you observed how social mood shapes social events?

Michael Flagg: It was in late 1999 or early 2000. I was watching a financial television program. Two ostensibly professional journalists were interviewing the pets.com sock puppet on the limitless possibilities of the Internet economy. I'd read *The Wave Principle of Human Social Behavior and the New Science of Socionomics* a few months before, and what I'd regarded as an academic curiosity became very real. It hit me that these people on television were riding a tide of social mood, not hard-nosed journalists ferreting out the truth.

SI: How does socionomics play into your blog?

MF: FutureJacked started off mainly as a way to blow off some intellectual steam and work out for myself and anyone interested the coming wave of change. I have tried to highlight current events from a socionomic perspective. I strongly believe that waves of optimism and pessimism are at the root of current events and news.

SI: It seems like just about every week there's a new bailout plan, a massive government spending bill, fears of more job losses and bankruptcies. How does socionomics help you understand the news of the day?

MF: It acts as an antidote to the whipsaws of fear and relief that we see in the markets and the financial press. Socionomics allows for perspective and helps calm the nerves while others are shocked as they watch what they previously thought were "impossible" events unfold day after day.

SI: Other than using the Wave Principle to forecast financial markets, what's a practical application of socionomics that people may not have thought about?

MF: Socionomics is a great tool to have in your kit when evaluating a job offer or considering a move. For instance, I left a job as a computer programmer in the financial industry to return to college and get a degree in nuclear engineering. My thinking was that a strong downturn was going to hurt the financial system. I now have a degree in a niche field that, hopefully, will be more stable than my previous career. In the end, though, socionomics is just a tool—you have to make the decisions yourself.

SI: What are your hopes for the future of socionomics?

MF: It is my hope that in coming generations, people will use socionomics as a primary tool to help guide long-term planning and decision-making.

You can visit Flagg's blog at www.futurejacked.blogspot.com.

Parallel revolutions in the social and physical sciences continue

In his 2003 book, *Pioneering Studies in Socionomics*, Robert Prechter introduced readers to physicist Lewis Little. Prechter argued that Little's theory shared an important principle with socionomics: both attempt to deconstruct longstanding error pyramids—in the social sciences and quantum physics, respectively. In each case, the change is due to reversing the direction of an active agent to create a new theoretical model of causality.

We are happy to announce that Little's book, *The Theory of Elementary Waves*, is now available. Little writes for the intelligent layman, so please tell your science-minded friends about this book. You can order *The Theory of Elementary Waves* now.

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

The Socionomics Institute

200 Main St., Suite 350,
Gainesville, GA 30501

Editor: Matt Lampert
Production: Cari Dobbins
Phone: (678) 207-1036
Fax: (770) 536-2514
E-mail: institute@socionomics.net



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