The ground swell of interest in socionomics over the past few years signals that it’s time to inaugurate a publication that reports directly to enthusiasts on the progress in socionomics.

For those of you who are new to socionomics, it may be of interest to know that Robert R. Prechter, Jr. first wrote about its central hypothesis in 1979. Prechter continued to expound on socionomic theory, exploring its relation to social causality and collective human behavior in his monthly newsletter, *The Elliott Wave Theorist*, until 2003, when his collected writing’s on socionomics were published as a two book box-set: *Socionomics: The Science of History and Social Prediction*. Today, socionomics elicits attention from thousands of early supporters, an increasing number of academics and scientists, and university students who express interest in making socionomics a focal point of their graduate studies.

The community of socionomists is growing, and their varied interests, combined with the broad reach of socionomics across the social sciences, provide an opportunity for *Progress In Socionomics* to act as a clearinghouse for a wide range of material, from casual observations to in-depth studies. This newsletter targets the public at large, but we also hope that interested academics will use it as a springboard to study socionomics in future academic papers.

We encourage you to add your voice to the mix by submitting content in the form of letters to the editor, informal remarks on popular culture, essays that highlight the application of socionomic theory, and papers that test its practical application. Overall, *Progress In Socionomics* aims to facilitate a self-propelling and self-selecting intellectual ecosystem devoted to all matters socionomic.

We look forward to your comments.

Sincerely,

Gordon Graham
Director, Socionomics Institute
Socionomics Foundation
One of our most significant developments in the past year has been the formation of the Socionomics Foundation, a non-profit organization whose mission is to raise funds from donors and issue grants to scholars. Executive Director Wayne Parker, Ph.D. and fundraisers Diane K. Gray and Sarah-Beth Lardie are hard at work building relationships with donors, both private and public. For a further detail on the Foundation’s activities, please see the Socionomics Foundation News section on page 12.

Socionomics Club formed at McGill University
September 2004 - Marius Alexe, an MBA student at McGill University in Montreal, has formed the world’s first socionomics club. The university has fully sanctioned the club, and to date it has grown to 26 graduate student members from various disciplines. Marius is working with the Institute to develop a study program that will assist students in understanding socionomics and help them incorporate socionomic concepts and theory into their research. The club’s meetings will feature guest speakers from the academic community. Marius welcomes contact from students. You can reach him at map75@videotron.ca. We can help you form a new club by arranging speaking engagements, providing books at a discount and viewings of our documentary History’s Hidden Engine.

Robert R. Prechter, Jr.
Executive Director
Socionomics Institute
Emory University, Department of Psychiatry and Behavioral Sciences
February 2003 – Atlanta, GA
Mr. Prechter assisted neuroscientist Dr. Gregory Berns in designing the theme of an fMRI experiment to test the effect of peer pressure on mental activity. The hypothesis was that a group setting would prompt a neurological response in a different area of the subject’s brain than would a lone setting. Berns’ experiment bore out the hypothesis. (See “In Search of the Buy Button,” Forbes, Sept.1, 2003)

Massachusetts Institute of Technology, Laboratory for Financial Engineering, Sloan School of Management
September 12, 2003– Cambridge, MA
Presentation title: “Fundamentals of Finance and Socionomics”
In addition to a brief introduction to the Wave Principle, Mr. Prechter’s 2.5-hour presentation focused on the dichotomy between financial markets (appreciable assets) and economic markets (goods and services). The counter-intuitive nature of socionomics and its breadth of applicability intrigued students and prompted a spirited Q&A session afterward.

Neuro-economics Conference
September 18-21, 2003– Martha’s Vineyard, MA
Mr. Prechter reports that the conference was loosely run, with some early presenters talking for two hours or more and many others crowded out of the agenda altogether. Bob squeezed in a 15-minute introduction to socionomics, which overall was met with indifference at best and hints of derision from some. The core group of attendees were scientists who passionately pursue the idea that studies – based on game theory or MRI readings, for example – of individuals’ behavior confined to a laboratory setting can be summed to offer insights
– recent activities cont’d –

into economic or financial behavior in a social setting. Only one professor indicated an interest in Bob’s proposal that the motivation for social action is an unconscious herding process requiring a social setting to operate. Sometimes one new interested party is enough to reward the effort.

London School of Economics and Political Science
March 18, 2004—London, England
Presentation title: “Socionomics – Social Mood as the Engine of Social Activity”
Approximately 220 students, professors, professionals and media representatives attended the three-hour presentation sponsored by the LSE Students Union Investment Society. Mr. Prechter covered many topics, ranging from the fractal structure of markets to how social mood trends influence social action. Interest was keen, as everyone in the standing-room-only crowd stayed for the duration. Afterward, several graduate students asked about making socionomics the basis for doctoral dissertations and wondered about careers in socionomics.

University of Ballarat
December 13, 2004—Melbourne, Australia
Mr. Prechter gave a two-hour presentation at the First International Workshop on Intelligent Finance - A Convergence of Mathematical Finance with Technical and Fundamental Analysis (IWIF). This conference, sponsored by the University of Ballarat, brought together academic researchers and professional market analysts, making it the first workshop to reach out to both fields. Bob’s presentation covered the following topics:
- The fundamental difference between economics and finance
- Why the Law of Supply and Demand is inapplicable to macro-financial trends
- The “robust fractal” nature of markets
- The Wave Principle model of market behavior
- The irrelevance of events and news to market action
- The mental source of the impulse toward collective participation
- Implications of the Wave Principle model for social event causality
- Applying socionomics to social forecasting

In addition to the presentation, the Socionomics Foundation submitted a paper to the conference proceedings titled, “The Financial/Economic Dichotomy.” The proceedings are available for purchase at www.iwif.org.

John L. Casti, Ph.D.
Complexity scientist
Technical University of Vienna

Dr. Casti has become increasingly interested in socionomics since first being introduced to the theory in May 2002. As part of his consulting and speaking engagements, John now frequently provides introductory presentations on socionomics.

Australian Center for Industrial Research and Organizational Management
July 11, 2003—Melbourne, Australia

Massey University seminar in Applied Math Department
July 23-25, 2003—Albany, New Zealand (Auckland)

Brazilian National Super Computer Center
August 21, 2003—Petropolis, Brazil
One in a series of lectures on modern trends in complex systems theory.

University of Nevada, Economics Department,
Departmental seminar.
April 23, 2004—Las Vegas, Nevada

Economics Department, University of Otago,
Departmental seminar
July 21, 2004—Hamilton, New Zealand

Michael K. Green, Ph.D.
Department of Philosophy
State University of New York, Oneonta

Since 1999, Dr. Green has surveyed much of the social science literature relevant to socionomics and is now writing papers on a frequent basis. He has presented five socionomic-related papers in the past 18 months, including three this summer in England and Italy.
MAR

– recent activities cont’d –

The International Confederation of Associations for Pluralism in Economics

**June 5-7, 2003** – University of Missouri at Kansas City, Kansas

Conference Theme: New Directions in Economics


Association for Institutional Thought

Annual Conference 2003

**April 11-14, 2004** – Salt Lake City, Utah

Conference Title: Institutional Economics

Paper Title: “Formological Economics and the Collapse of the American Economy: Veblen and Emulative Desire”

Association for Heterodox Economics

Annual Conference 2004

**July 16-18, 2004** – University of Leeds, UK

Conference Theme: New Directions in Economics

Paper title: “Formological Economics and the Coming Collapse of the American Economy”

Second International Conference on New Directions in the Humanities

**July 20-23, 2004** – Monash University Centre, Prato, Tuscany, Italy

Conference Theme: New Directions in the Humanities


2004 Annual Conference of the International Association for Critical Realism (IACR)

**August 17-19, 2004** – Cambridge University, England

Conference Theme: Theorizing Social Ontology

Paper title: “Mechanistic, Teleological, and Formological Ontologies”

Michael reports that his presentations on socionomics have met with a wide range of appraisals.

“Because of the challenging nature of the socionomic hypothesis, most scholars are curious and puzzled. The belief that humans behave almost entirely rationally and are fully informed is deeply held among social scientists, especially economists. Thus, most scholars think that events drive the market and therefore both economic and financial activity. A primary concern is how one would test the theory’s various hypotheses. Audiences also express a second set of concerns about the predictions made by analysts who apply the Wave Principle to stock market forecasting. Some are apprehensive, afraid that the current rebound in the stock market is indeed only temporary. Others are convinced that the worst is over. Sometimes the objectors reason in a circular manner, arguing that the predictions can’t be true because they are too pessimistic while others argue – contrary to socionomics – that proper public policies could mitigate any further economic decline. The belief that social authorities are in control of their own social destinies is another fundamental dogma of the social sciences. When my paper concentrates on the data supporting socionomics, it has been met with curiosity and puzzlement because most scholars are not familiar with the sentiment indexes and other such measures used in technical analysis. Further education is required to familiarize academia with these data collection techniques.”

Northeast Popular Culture Association Conference

**October 30, 2004** – Newbury College, Brookline, MA

Paper title: “Finding Nemo and the Social Expression of Optimism”

John Nofsinger, Ph.D.

Department of Finance

Washington State University

John first became interested in socionomics while preparing a paper on financial legislation in May 2003. Gordon Graham of the Socionomics Institute contacted Professor Nofsinger to suggest that he investigate the socionomic view of social causality in the course of his research. Since then he has written a paper titled “Social Mood and Financial Economics” that is scheduled for publication in the *Journal of Behavioral Finance* in the first half of 2005 [see article on p. 5]. John reports that comments from colleagues have ranged from fascinating, engaging, and creative, to speculative, although grounded with empirical studies of other researchers. They are intrigued by the socionomic hypothesis and find that the paper clearly shows that social mood has widespread consequences on social activity, including financial markets. Interestingly, social science disciplines outside finance seem to be more amenable to considering stock market averages as accurate registers of social mood.

NASA Self-Dissimilarity Project

In May 2004, Deepak Goel, the Institute’s Research Scientist, visited the NASA Ames Research Center and
formed a collaborative project with NASA scientists David Wolpert and William McCready. The project stemmed from Wolpert and McCready’s dissatisfaction with the concept of “complexity” or exactly what constitutes a “complex system,” as it has long resisted a formal and widely agreed upon definition. As an alternative to existing models, Drs. Wolpert and McCready and have developed the concept of “self-dissimilarity” and have asked the Socionomics Institute to analyze stock market data using their methods.

History’s Hidden Engine – A Documentary on the Wave Principle, Social Mood and the Socionomic Hypothesis

Eyekiss Films, an independent film production house in Atlanta, is nearing the completion of a documentary on socionomics. Please see www.eyekissfilms.com/engine.htm for more details.

BOOK ANNOUNCEMENTS

Colors of Infinity: The Beauty and Power of Fractals
William Pryor, editor
In 1994 Nigel Lesmoir-Gordon produced and directed the groundbreaking TV documentary on fractals titled The Colors of Infinity. Now, a decade later, Clear Press books has published a book of essays of the same name that features a chapter by Robert Prechter titled, “The Fractal Nature of the Stock Market: The Human Social Experience Forms a Fractal.” Mr. Prechter joins the world’s founders and leaders of fractal geometry – Benoit Mandelbrot, Ian Stewart, Gary Flake, Michael Barnsley and Arthur C. Clarke – as they reflect on the many theoretical, practical, commercial and artistic ways in which fractals are used every day. To order a copy of The Colours of Infinity, please visit www.clearpress.co.uk. The book includes the original 1994 documentary on DVD.

Beautiful Pictures from the Gallery of Phinance
Robert R. Prechter, Jr.
In Beautiful Pictures, Robert Prechter reveals a web of instances in which major waves in the stock market during the 20th century are in Fibonacci proportion to each other in time and/or price. The size of these waves is so substantial and their relationships so close that they appear to bear out R.N. Elliott’s contention that the Fibonacci sequence and ratio govern the cooperative mass psychology that vacillates in patterns that constitute the Wave Principle.

LETTERS TO THE EDITOR

August 8, 2004
Dear Mr. Prechter,

Before retiring I taught “conventional” history and Keynesian economics for many years – I wonder how much damage I did to young minds!

Recently, I encountered some of your work and was staggered by its implications and apparent insight. I wish I has come across them much earlier in my life but am nevertheless having a great Indian summer introducing your work to former students and colleagues and to “dyed in the wool” academics, some of whose skepticism does seem to be ebbing.

Yours Sincerely,
Alan Ambler Jr.
Rochdale, England

December 11, 2004
Dear Sir,

I’ve been reading Mr. Prechter’s work since the mid ‘80s, and it had gotten to the point where I could distinguish his prose from the compositions of others before he separated the Elliott Wave Theorist from the Elliott Wave Financial Forecast! It is a privilege, actually, to be a subscriber and to learn from such a person. Funny, though, I must read the monthly newsletters at least 3 or 4 times. I read something new each time, something I missed the time before, the complex subject matter is difficult to convey but I enjoy it when the little light in my head finally comes on and I say to myself, “Oh, that’s what he means.”

Keep up the good work, everybody!

Sincerely,
Larry Okarski

September 5, 2004
Dear Mr. Prechter,

Periodically your writings bring up the connection between bear markets and epidemics.

I enclose excerpts from 3 books indicating that we are now in the midst of a massive epidemic of STD’s. And probably much worse to come!

Could the existence of an epidemic of this magnitude, so early in the bear market, be more evidence that we are indeed headed for a new Dark Age rather than a
Along these lines, note the statement on p. 12 of Meeker’s book that half of British girls become infected with a STD upon their very first sexual encounter, and your statement in the July EWT that Britain is about to undergo its greatest revolution to date. Is this mere coincidence?

Thought you might be interested in these data. This is not some hypothetical event of the future; it’s occurring right now. Might give you some material for a future issue.

Keep up the good work!

Sincerely Yours,
Robin Rice

December 2, 2004

Dear Sir,

I find Prechter’s thesis incredibly profound - that the Wave Principle is the only way to understand history, and the only way to put collections of events into a perspective that explains why they happen when they do and why they happen together. It gives me a certain peace of mind to comprehend that patterned change is the nature of sociology. In the back of my mind, I have always felt uneasy about the reason for the rise and fall of civilizations. Nothing else that I have read has provided a satisfactory explanation.

There is no doubt about the profound affect of geniuses such as Aristotle or Ayn Rand upon social behavior, but the timing of the origin of their works and the timing of the acceptance of their works by the collective seem to be patterned. And even if generations of people accept an idea, future generations may discard it. Studying Prechter’s chart of history, you see how the rational and positive appear together and the irrational and negative likewise. In Leaonard Peikoff’s lecture series, “History of Philosophy,” a student asked why Aristotle’s work was not accepted at the time that he produced it. Peikoff was not prepared for such a question and he thought about it for awhile. At the time, his reply struck me in such a strange way that I have never forgotten it. “I guess that people weren’t ready to hear it at that time,” he said. In light of Prechter’s thesis, Peikoff’s reply now makes sense to me.

Larry M Male

“Social Mood and Financial Economics”

by Gordon Graham

Socionomic theory has many attributes, but its most compelling feature is this: it can explain the motivation for a wide variety of social actions with one simple independent variable – social mood, as measured by stock market indexes. Robert Prechter has provided numerous examples of the socionomic perspective over the years, and now, behavioral economist John Nofsinger adds to the evidence with a peer-reviewed paper, “Social Mood and Financial Economics,” which applies socionomic hypotheses to areas ranging from entrepreneurship to mergers and acquisitions.

Dr. Nofsinger gets to the heart of socionomic theory by drawing on dozens of studies to support three of its most important hypotheses relating to financial economics:

1) Due to the efficient and emotional nature of transacting stocks, the stock market itself is a direct measure of social mood.
2) Social mood motivates decisions made by consumers, investors, and corporate managers alike.
3) Since the character of business activity flows from social mood, stock market trends help forecast future financial and economic activity.

With these hypotheses and supporting evidence, he successfully shows the vital contributions that socionomics offers behavioral economics. Two excerpts follow.

1. How the primacy of social mood incorporates specific theories typically employed by behavioral economists.

Researchers explain puzzles involving merger waves, initial public offerings, hot and cold markets, and business starts by blaming irrationality, sentiment, and optimism. The purpose of this paper is to connect these narrowly focused theories and reinterpret them as economic
cases under the general sociological state. The recasting of individual optimism and investor sentiment as specific examples of a larger social mood is important, because it allows for new and more general hypotheses than the more focused models to date.

2. How the socionomic hypotheses have predictive value. Given that the stock market is a measure of social mood, and that mood influences economic activity, we can make more general economic predictions than those of more narrowly defined models of investor sentiment or corporate manager optimism. A rising (optimistic) mood is first measured by increases in stock market valuation. Optimistic business participants increase corporate investment, use more debt financing, conduct more mergers, take firms public and start more new businesses.

Dr. Nofsinger explains that behavioral economists have identified a number of cognitive biases to explain the non-rational actions of individuals. For example, they commonly invoke the “misattribution bias” to explain how emotional influences that are irrelevant to the situation can affect the evaluation of a risky decision. Similarly, they cite “overconfidence” to account for why CEOs overvalue target firms’ assets and overestimate the returns from potential synergies of merger proposals.

Socionomists consider these cognitive errors to be secondary phenomena of the unconscious herding impulse of individuals that aggregates in a non-linear manner to create social mood. In the socionomics lexicon, cognitive errors such as overconfidence and misattribution are fundamental characteristics of human social behavior, and not really “biases” or “errors” in a rational context.

Further, because behavioral economics theory views these individual “errors” as isolated from the larger dynamic of social mood, they hold no predictive power. For instance, while it is helpful to know that mergers, on average, return no value to the acquirers due to their overconfident view of future prospects, it does not help in understanding why waves of mergers come and go as they do. On the other hand, Nofsinger notes that socionomics can not only provide predictions about the types of economic activities that may manifest themselves, but also the timing of those activities.

To drive the point home, the paper closes with comments on social causality:

A traditional rational expectations approach to the stock market and economic activity suggests that social events cause short and long term reactions in the stock market. For example, the legislative activities of the government influence the direction of the stock market. However, the socionomic hypothesis proposes the opposite. A positive or negative social mood is quickly reflected in the stock market and eventually determines the tone and character of legislation enacted. Therefore, it is the mood indicated by the market that influences legislative activity. The standard assumption of causality is backwards. It is not the actions of the Fed that drive the market—it is social mood that drives the market and business activity, which causes the Fed to act. Investors don’t feel bad because the stock market has dropped—the market has dropped because people feel bad, and so on.

The Journal of Behavioral Finance has accepted “Social Mood and Financial Economics” for publication in the first half of 2005. We think it’s a significant paper that will start opening doors for additional academic study of socionomics.

Mechanical, Teleological, and Formological* Ontologies in Economics

Current models are inadequate to predict or understand many current economic processes because of their ontological assumptions (ed: ontological- a metaphysical philosophical term concerned with the nature and relations of being. Ontology attempts to answer questions like, “What is real?”). Mainstream economics borrowed its approach from the Classical physics mechanistic matrix of inquiry, from which it drew its ontological assumptions. Economists broke down the phenomena into isolated units: independent, self-interested, and rational agents with perfect knowledge who retained their identity over time. They saw the economy as a closed system which sought equilibrium points; the sum of the buyers and sellers in the market. Deviations from equilibrium were the result of external forces, thus the only significant fact was the equilibrium point itself and not how the system arrived at that point.

One of the principle alternatives to the classical matrix of inquiry is the teleological model developed by the Hegelian tradition. Society was a plurality of heterogeneous processes – forces of production, relations of production, social and political institutions, and forms of social consciousness. These different elements interacted with one another in mutually supportive as well as mutually antagonist ways. However, they tend to work toward the creation of an integrated whole in which the various processes mutually support one another. This tendency was the result of the autonomous activity of the whole and not external forces. However, not all of these processes are equally basic. In a teleological model, economic processes are more basic and are the driving force behind social change that produces disruptions in society and destroy the integration and unity of the constituent processes. If there is too much disruption, then the society is not able to compensate, and its integration falls apart. Alternatively, if the disruption is not beyond the compensatory capabilities of the society, then the society moves toward a new state of integration or unity. This occurs by the amplification of processes that are compatible with the innovations in the economic form of life of the society and the suppression of those that are incompatible with it.

Both of the above approaches have shown their limitations in their failure to adequately understand uncertainty in the sense identified by Frank H. Knight. An understanding of the importance of the social construction of uncertainty leads to a new matrix of inquiry, the formological one. Under conditions of uncertainty, people turn to others in order to decide what to do. They identify what they take to be “knowledgeable” people, i.e., ones in whom they have confidence, and follow them. This process is emotional and non-rational because there is no basis for rational decision-making. Mimetic desire is what creates these emotion identifications. The individual creates and maintains the distinction between that which is and that which is not himself and thereby maintains and creates his identity. This is done through a process of emotional assimilation and identification through which an individual invests an item, event, or relationship with value, i.e., emotional significance. In the creation and maintenance of identity, two tendencies are at work. First, through one’s ongoing interaction with others, an individual creates new relationships and expands the boundaries of the self by the emotional identification with valued object, events, or relationships. Confidence is necessary in such circumstances in order to take the risks of creating new relationships. On the other hand, there is the tendency to maintain and preserve the already built up set of valued objects, events, and relationships from the past. Fear of loss predominates in such circumstances. Life is a balancing act between preservation and expansion, fear and confidence, with different tendencies predominating at different times. Acting under conditions of uncertainty depends upon one’s feelings of fear or confidence more than it does upon rational calculation of probabilities.

Under conditions of uncertainty and mimetic desire, then, systems of mutual positive feedback can develop among individuals giving rise to nonlinear dynamics. R. N. Elliott discovered that these nonlinear, self-amplifying interactions among interdependent individuals with mimetic desire have a definite identifiable five-wave structure. An idealized Elliott wave
exhibits the familiar sigmoid-shape of the logistic curve. In chemistry, this is the curve of the autocatalytic reaction, where the reaction product accelerates its own production. In biology, it is the equations of Verhulst, which describe the growth of populations under conditions of limited resources. A complete Elliott wave, then, depicts a series of logistic escalations, in which there are a series of logistic curves built upon one another. What is at work is self-organized criticality that establishes interdependencies on larger and larger scales.

The ontology underlying the formological approach is different from both the mechanistic and the teleological one. It agrees with the teleological approach in that an ontology of wholes is the basis for understanding social change. However, instead of a teleological movement towards a single unified whole, the formological approach holds that society consists of a plurality of organized wholes representing different social constructions of uncertainty. An Elliott Wave represents the movement into and out of these various perspectives.

Such a system maintains its identity by means of structure and cyclical change that manifests a certain form. This view also posits a principle of internal change, arising from nonlinear, mimetic interactions among individuals. Internal change does not move towards completion. Instead, it reverses when there has been a preponderance of movement into one particular perspective, oscillating in a cyclical manner from one uncertainty perspective to another.


**Waves of ‘War and Peace’**

by Vox Day

It is easy to mistake Leo Tolstoy’s massive book, "War and Peace," for a novel. It is not. Instead, it would better be considered the world’s longest satirical polemic, in the vein of Jonathan Swift’s "A Modest Proposal." From beginning to end, Tolstoy’s classic work is intended to illustrate the arrogant incompetence of human understanding and the inability of human reason to explain even the simplest of social phenomena.

With unrelenting precision and distinct overtones of mockery, Tolstoy dissects the notion that men dictate events. In one specific example, he examines, with minute detail, the four specific orders Napoleon gave to his army prior to the battle of Borodino:

> These dispositions, which are very obscure and confused if one allows oneself to regard the arrangements without religious awe of his genius, related to Napoleon’s orders to deal with four points – four different orders. Not one of these was, or could be, carried out...

And it was not Napoleon who directed the course of the battle, for none of his orders were executed and during the battle he did not know what was going on before him. So the way in which these people killed one another was not decided by Napoleon’s will but occurred independently of him, in accord with the will of hundreds of thousands of people who took part in the common action. It only seemed to Napoleon that it all took place by his will.

In the second epilogue, Tolstoy goes on to brutally abuse both specific and universal historians, demonstrating how their explanations of various historical events is not only inevitably contradictory, but often constructed on base premises that do not withstand a moment’s reflection. Tolstoy further underlines his case by the choice of the two heroes of the novel within the polemic, Pierre and Kutozov, both of whom achieve their respective dream of inner peace and Russian victory only by submitting their will to the great forces moving around them.

Writing 199 years after Tolstoy, the controversial technical analyst Robert Prechter echoes the count in scorning the common wisdom’s basic explanations for why things happen. In the June *Elliott Wave Theorist*, he writes:

> Almost every day brings another example of rationalization in defense of the idea that news moves markets. The stock market rallied for half an hour on the morning of April 20, peaked at 10:00 a.m., and sold off for the rest of the day. Almost every newspaper and wire service claims that the market sold off because "Greenspan told Congress that the nation’s banking system is well prepared to deal with rising rates, which the market interpreted as a new signal the Fed will tighten its policy sooner rather than later." Is this
The socionomic perspective maintains that social mood moves in trends, from an extreme in pessimism to an extreme in optimism and back, each trend consisting of different degrees (smaller waves of optimism and pessimism are building blocks of larger waves of optimism and pessimism). While the stock market is the most accurate meter of this directional psychology, events – and the timing and tone of their reports in the news – are very telling if not confirming. “At best,” wrote R.N. Elliott, “news is the tardy recognition of forces that have already been at work for some time and is startling only to those unaware of the trend.” Indeed, many news events occur at the extreme psychology of some degree, and may act as a bellwether of a trend change in the opposite direction, not an instigation or continuation.

Aside from the typical interest in the news of the day, socionomists assess the psychology expressed in the event and how journalists convey that psychology in their reports. Does either the event or the report express optimism or pessimism? Is either the result of extremes in psychology? Why did the event occur at this time? In some cases, the story has unfolded for some time, then why is it appearing in the headlines now?

Though the news is a broad subject, this article focuses on those news reports that are in sync with the end of a trend. Understanding this timing of the "breaking" news gives us a radically different method of interpreting the news.

Viewing the news in terms of trends in social mood and utilizing Elliott wave patterns to assess the maturity of a trend enables us to see an uncanny relationship between news events and trend completion. A recent article, “When Beauty and Value Are in the Beholder’s Eyes” profiled the fetishes of collectors of art and wine. In order to track the value of art sold, two professors have created the Mei/Moses Fine Art Index, composed of more than 13,000 transactions since 1875, mainly by the Sotheby’s and Christie’s auction houses in New York.

Their index calculates that fine art has increased in value at about the same pace as stocks (as measured by the Standard & Poor’s 500-stock index) over the past 50 years. "For people who have a 20- to 30-year horizon, I have no problem talking about art as an investment,” said Professor Michael Moses of New York University. Note the optimism in his statement in relation to the chart. The chart below shows a textbook Elliott pattern of a completed five waves up from at least the 1994 low, if not a longer trend. Most of us naturally use the news stories to project the event linearly into the future, and in this case assume that art values will continue to rise. Instead, the socionomist...
recognizes a mature trend. This article’s appearance in a general interest newspaper helps confirm that the form in the chart is complete: Fine art has reached a pinnacle of asset appreciation. This uncanny timing reveals a certain truth about mass psychology, namely that the extremes in optimism or pessimism generate such news stories.

Because social mood underlies all collective behavior, headlines allow us to anticipate the maturation of trends in other areas of social activity as well. In the optimistic trend from the 1940s to 2000s, we see the same five-wave pattern, indicating an upcoming change of trend in the ratio of non-financial debt to gross domestic product. The socionomist must ask himself: Why is this report appearing today? The answer: The article is appearing as the trend reached an extreme (see chart above).

Now that we see that extremes in psychology produce headlines, we can make preliminary assessments of trend maturation from the character of the reports and events themselves. For example, over a period of a few months in late 2003 and early 2004, a spate of articles and TV news stories reported the dramatic increase in obesity among Americans. New books based on multi-year studies broke the news: Americans were eating larger portions of food. The increase in weight had begun in the early 1980s, and in 2000 officials said, “the number of overweight and obese youth has nearly doubled in the past two decades, and data suggests the levels are still on the rise.” They announced that 65 percent of U.S. adults are either overweight or obese. This public focus in the media on obesity included a warning in October 2003 from the Center for Disease Control and Prevention (CDC), which declared so much obesity “a catastrophe,” and the White House finally “took aim at obesity” with the release of a report from the Obesity Working Group in March 2004.

This sweeping attention, from scholarly studies and books, to headlines, to the highest office of government, signals that the trend of weight gain is at the very least near maturity, if not already past. It takes time to recognize a trend. As for weight gain, we know it took time to eat a lot of chips and burgers and gain a lot of weight. It was only after people became obese that an academic could notice it, conduct a study of it, and write a book on it. Finally, the story hit the headlines just as the trend appears mature. In this instance, the “SuperSize Me” epoch began in the early 1980s coincident with the rise in optimism also shown by the stock market.

Weight gain is not an isolated event. We see gluttonous excess in other aspects of human behavior during the same period. We see the “SuperSize Me” influence on the size of new homes. The McMansion, a derisive nickname that uses the prefix of the fast food icon in reference to oversized suburban homes sporting such amenities as the three-stall garage and cathedral ceilings, makes up an ever-larger percentage of new homes (the largest sector of new homes, namely 37 percent, are those 2,400 square feet and larger). “Buyers of new homes want larger houses with lots of space,” notes the National Association of Home Builders (NAHB). “They specially prefer large kitchens adjacent to family rooms and want the two rooms to be visually open or divided with a half wall.” According to the NAHB, the size of the average home grew from 1,500 square feet in 1970, to 2,080 square feet in 1990, to 2,230 square feet in 2002 (1980 data was not reported).

We see the same growth in household sector debt (auto loans, credit cards, and mortgages – including the ubiquitous home equity loans popularly used for kitchen renovation) as a percentage of GDP. An interesting side note is that according to the NAHB’s survey, 63 percent of respondents ranked a kitchen renovation as their top choice, with bathrooms second at 61 percent. The chart below shows the growth in household debt.
During the period of 1980 to 2000, we see a well-defined trend in Americans SuperSizing their bodies, homes, and debt. While the White House has taken “aim at obesity,” it sees no correlation with debt and the size of new homes. Yet, socionomics identifies a clear associative relationship between these activities, among others. The CDC forecasted that more people will gain weight, but their own documentation indicates a mature trend. Their linear projection at the end of a trend is least probable. What might we think will happen next?

First, a survey of events confirms a change in the character of attitudes. The first indicators of a trend reversal emerged simultaneously with the official government recognition of the trend: McDonald’s closed stores for the first time in its history, it started offering $1 Value Meals (a dramatic downsize from the SuperSize), it came under attack in the popular documentary “Super Size Me,” and the entire fast food industry was lambasted in the bestseller, Fast Food Nation: The Dark Side of the All-American Meal.

Instead of projecting linearly into the future that this trend in weight gain will continue, we understand that the headline reports and the concurrent attacks indicate we have reached an extreme and are set to begin a new trend. The associative relationship of the weight gain and the rising stock market from 1980-2000/2004 (both driven by underlying optimism) would forecast that the trend of weight gain might change. In the broadest sense, we can probably assume that, as an aggregate, the American trend towards obesity has passed. That leaves two probable outcomes: Americans will either hold their weight the same or see it drop on average.

We can check our observations with statistical analysis. The CDC studied weight gain and obesity trends from the 1960 to 2000 and found that “the percent of obese adults varied little from 1960 to 1980 but increased considerably between 1980 and 1991, from 13 to 21 percent among men and from 17 to 26 percent among women. This trend continued in 1991–2000, with an increase in obesity of 28 percent of men and 34 percent of women.”

First, we can use a standard socionomic forecasting tool of observing trends in the previous 4th wave and applying them to the upcoming downturn of larger degree. The number of obese Americans remained static during the period 1960-1980, which generally covers the 1966-1982 bear market (known as Cycle Wave IV). We are anticipating a large degree downturn in social mood, actually two degrees larger than the one during the 1970s, thus we can anticipate similar or more extreme behavior than the previous 4th wave. This supports the probability of no more aggregate weight gain.

Recent data show that the trend towards obesity is actually slowing. From 1980-1991, the increase among men rose from 13 percent to 21 percent, an increase of 54 percent; during the 1991-2000 period it increased from 21 percent to 28 percent, an increase of 33 percent. We see the population slowing its rate of change towards obesity as the fifth wave of cycle degree extended in the 1990s. In women, the slowing of obesity was more dramatic. The 1980-1991 period had an increase of 53 percent and 1991-2000 saw an increase of 21 percent.

In order to forecast the future of a trend, look at the rate of change rather than the quantity. While the news shows the broad-based concern that more

These general guidelines will help you get a jump-start on spotting the end of a trend in the headlines.

1. Too Many Experts Spoil the Fun: when an article notes or quotes that the majority of experts agree (and the more experts the more so) the trend is mature. In respect to a majority, keep an eye on 62 percent, the golden mean, which we see in polls, elections, and surveys, among other places on a frequent enough basis to be significant.

2. What Everybody Knows: when all the headlines agree (especially those of different political or philosophical hues) then the trend is mature. When a particular news item saturates all mediums and genres, even Entertainment Tonight, they are celebrating the known and the old.

3. The Last to Know: for any news regarding a niche or specialty to reach the popular press indicates the trend of that particular social behavior is in the maturation phase. The same applies when someone gives you a hot “inside tip,” be wary. These sources indicate that the news has saturated the very last capillary; the trend is near its end and will soon reverse (if it hasn’t already).

4. I Can See Clearly Now: when self-assured commentators cite evidence of the current trend continuing indefinitely into the future, which is a linear extrapolation of the well-documented evidence, then get off the boat. Their evidence and analysis might be top shelf, but they lack an understanding of how things change.

5. Reach the End to Begin Again: people love to make definitive statements that a social condition is permanent. Perfect examples are “The End of History,” “the Death of Equities,” and “the New Economy.”
people are obese today, the slowing rate of change towards obesity indicates a mature trend. Thus, the statistical analysis backs up our observation of the headlines and events concerning the trend towards obesity.

We see a similar slowing in the other two areas as well. In debt, like obesity, we see a flat trend through the same period, 1960-1980, then a steep rise accompanied with a slowing rate of change for the period 1980-2000. While the data on housing is too sparse to show the trend in the 1960-1980 period, we see the same slowing of percentage increase in the average home size.

The trend towards obesity is over, as are the trends towards larger new homes and greater amounts of debt. Since the same social mood that moves these trends in obesity, housing, and debt also moves the stock market, and these trends have followed the stock market so closely, one can watch the stock market as a general indicator of these other trends.

Much of the “news” is a misnomer in the socionomic perspective. Despite the root of the word news, new, headlines often report the culmination of a trend. The socionomic perspective helps decipher the headlines and the events they report as indications that the old trend is nearly over and a new one is about to emerge.

Drew M. Ross lives in St. Paul, Minnesota and is the author of Walking On Sand: The Story of an Immigrant Son and the Forgotten Art of Public Service (University of Utah, 2004). He is currently at work on a book manuscript, Riding the Waves of Change: A Socionomic History of the United States. You can reach Mr. Ross at drewros@comcast.net.

2 New York Times, August 29, 2004
4 “White House takes aim at obesity,” CNN, March 14, 2004
5 CDC chief: Obesity top health threat, Reuters, October 29, 2003
8 “Healthy Weight, Overweight, and Obesity Among U.S. Adults,” National Health and Nutrition Examination Survey, CDC, July 2003

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The Socionomics Foundation is dedicated to advancing socionomics, the science of social prediction pioneered by Robert R. Prechter, Jr. The Foundation, a non-profit 501(c)3 organization, provides education and, by funding research, explores socionomic theory and how it can benefit individuals and institutions through the successful anticipation of social and cultural change.

The executive director, Wayne D. Parker, Ph.D. has worked as a clinical psychologist for the past 30 years. With a background in clinical psychology, neuropsychology and family systems theory, Dr. Parker has held an adjunct faculty position in the Department of Psychiatry at the Emory University School of Medicine for many years. He has also had an active private practice, specializing in marital therapy, since the late 1970s.

So why would a psychologist want to shift gears at this point in his career and direct a new organization such as the Socionomics Foundation? “Because we’re getting in on the ground floor of a brand new social science,” says Dr. Parker. “Socionomics is a new theory that brings more predictive accuracy to all the social sciences, including economics, social psychology, sociology, and political science. That’s exciting enough in itself, but there’s more: Socionomics is actually an entirely new paradigm, a new way of thinking about causality and about the nature of man. Working with Bob Prechter on this research gives me a chance to pull together diverse interests I’ve explored over the past 30 years. I’ve always been interested in psychological theory and metatheory – I used tools from philosophy of science to write the first theoretical doctoral dissertation my Ph.D. program ever permitted. Now I am applying the same tools to help academics see the relationship between socionomic theory and the traditional theoretical paradigms that have gone before it.”

What does this mean? Dr. Parker explains: “Like Piaget and Chomsky, Prechter has taken a
A structuralist approach to understanding complex human social behavior. Departing sharply from the traditional mechanistic worldview that served as the model of causality for Newtonian physics (and much of current economic and political theory), his socionomic paradigm has more in common with modern complexity theory and fractal geometry. Using a quantified structuralist approach, his integration of Fibonacci mathematics with principles of social psychology has allowed him to create a theory that offers more accurate projections of future economic, political and cultural trends than those of previous theories. At least that’s one set of hypotheses for which our current research program is trying to gather evidence.”

If you are a researcher in a university setting, and would like to explore possible ways to collaborate with the Socionomics Foundation, you may contact Dr. Parker at WayneP@socionomics.org. He will be glad to compare notes with you.

Want to help?
Please send tax-deductible donations to:
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Be sure to visit our website at:
www.socionomics.org

**PATERNED OBSERVATIONS**

Recently, the online science magazine *Edge.org* posed this question to its members:

“What do you believe is true even though you cannot prove it?”

Two of the answers are particularly relevant to the future of socionomics:

Jean Paul Schmetz
Economist; Managing Director of CyberLab Interactive Productions GmbH (Burda Media Group)

When considering this question one has to remember the basis of the scientific method: formulating hypotheses that can be disproved. Those hypotheses that are not disproved are thought to be true until disproved. Since it is more glamorous for a scientist to formulate hypotheses that it is to spend years disproving existing ones from other scientists and that it is unlikely that someone will spend enough time and energy trying to disprove his/her own statements, our body of scientific knowledge is surely full of statements we believe to be true but will eventually be proved to be false.

So I turn the question around: What scientific ideas that have not been disproved, do you believe are false?

In my field (theoretical economics), I believe that most ideas taught in economics 101 will be proved false eventually. Most of them would already have been officially defined as false in any other more hard-science, but, because of lack of better hypotheses they are still widely accepted and used in economics and general commentary. Eventually, someone will come up with another type of hypotheses explaining (and predicting) the economic reality in a way that will render most existing economics beliefs false.

Pamela McCorduck
Writer, Author

Although I can’t prove it, I believe that thanks to new kinds of social modeling, that take into account individual motives as well as group goals, we will soon grasp in a deep way how collective human behavior works, whether it’s action by small groups or by nations. Any predictive power this understanding has will be useful, especially with regard to unexpected outcomes and even unintended consequences. But it will not be infallible, because the complexity of such behavior makes exact prediction impossible.

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The Wave Principle of Human Social Behavior
and the New Science of Socionomics

“This is unquestionably a ground-breaking work whose audacious arguments can only be described as stunning and revolutionary in intent and scope. These far-reaching hypotheses are a testament to Prechter’s unequaled ability to weave together emerging evidence into a stunning new model. After reviewing my not inconsiderable library of key political science books, I am unable to find any books that are as sweepingly important and have the same potential to bring about a paradigm shift in the study of social events.”

Roman Franko, Ph.D.
Technical Analyst, Dundee Securities; regular columnist for The National Post; former lecturer, Queen’s University

Pioneering Studies in Socionomics

“Predicting the stock market is a national pastime. In this book, Prechter and colleagues turn the tables and explore the stock market as a predictor in its own right. Because the market is a sensitive barometer of national and world mood, Prechter holds, its movements can be used to anticipate everything from the popularity of brand names and spectator sports to the outbreaks of war. The socionomics thesis is a provocative one, and one worthy of serious consideration and investigation.”

Brett N. Steenbarger, Ph.D.
Associate Professor Psychiatry and Behavioral Sciences SUNY Upstate Medical University
Author of The Psychology of Trading: Tools and Techniques for Minding the Markets

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