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MARKET OVERVIEW

The April 16, 2010 issue of *The Elliott Wave Theorist*, titled "A Deadly Bearish Big Picture," provided our roadmap for the next half dozen years in the stock market. Stocks are down from that point, yet as the companion issue of May 8 predicted, financial commentary has remained steadfastly bullish. The majority has hailed every rally since April as marking the resumption of a bull market. Following a gentlemanly article in the New York Times on July 4, my call for a serious resumption of the bear market is being dismissed and ridiculed in the press. This is the way it should be because social mood, which regulates general stock market opinion, is once again historically elevated.

Financial commentators are focusing primarily on earnings—a woefully lagging indicator—to justify their optimism. But memories are short. Earnings were lousy in February-March 2009 and great now. How is this indicator useful except contrarily? Projected earnings are an even worse measure of value, because they reflect analysts' optimism and pessimism at exactly the wrong times for successful market timing. Still, it is natural for investors to focus on lagging indicators, because people are impelled to rationalize their moods, and leading indicators don't satisfy that need.

As for the short term outlook, the stock market rallies of June and July have the earmarks of a "wave 2," implying that a powerful "wave 3" down lies directly ahead. Even if it doesn't happen right away, it will occur eventually, so we are maintaining our stance of extreme safety and waiting for the market to issue its verdict.

The June issue updated our outlook for the U.S. Dollar Index, which is working out great. After tracing out a clear five waves up into early June, the index has fallen sharply from 88.71 to 82.08. The ideal target zone for this correction is 80.00-82.90, so, the dollar's setback has about run its course. If our wave interpretation is correct, it should find a bottom in this area and turn up. This resumption of our bullish outlook on the dollar fits our expectation of downside acceleration in stocks and commodities.

The action in gold is reflecting the negative technical condition reiterated in the June issue. Impressively, the yellow metal has edged lower despite the sharp setback in the dollar. In terms of foreign currencies, gold has been falling even faster. Yet optimism toward gold remains so high that no one seems to notice. If the dollar begins a third wave up soon, it probably won't be bullish for gold.

ANNOUNCEMENTS

When the clouds part, the sun really shines. On the heels of John Casti's ice-breaking book on socionomics and futurism, *Mood Matters*, comes Dr. Constantin Malik's new book, *Ahead of Change*. This compact volume is an excellent treatise on the challenges legislatures face when they attempt to plan for the future. I am convinced that government, in representing the crowd, cannot be trained socionomically, but Malik argues that socionomists should play a crucial role in helping government prepare for social changes. No doubt if a socionomist could restrain government from making even one among its countless disastrous decisions, it would be a good thing. Malik has been a steadfast supporter of socionomics for many years and was among the first to teach a college course on the subject, at the University of Klagenfurt in Austria. His book is highly recommended. Order from Amazon: www.elliottwave.com/wave/AheadOfChange.

Newsletter rating services have a difficult job. When Mark Hulbert appeared on the scene in 1980, his rating service (<http://bit.ly/awC7jb>) caused a storm of reaction as his tables exposed some writers who had overblown

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their claims of accuracy. Now he is a staple of the industry and is quoted all the time. When MarketWatch columnist Peter Brimelow covers newsletters that Hulbert covers, his column is often the “most read” on the website. Jim Schmidt’s Timer Digest is the other leading service. Jim was kind enough to feature Steve Hochberg and Pete Kendall of *The Elliott Wave Financial Forecast*—rated #4 among many stock market timers for the past two years and #3 short term—on his cover for July 12. You can access the write-up from that issue at http://www.elliottwave.com/wave/TD_EWFF. For our own part, we wish there were a way for rating services to report on our other contrary calls—such as those on the U.S. dollar, Fannie Mae, credit spreads, real estate and deflation—or when we save subscribers from following dangerous impulses such as buying oil and other commodities in 2008. (When the herd suffers huge losses, a zero gain is a very good thing.) Moreover, many people tell us that they subscribe for the intellectual benefits of our publications, but there doesn’t seem to be a statistical way to rate that kind of value. Nevertheless, if you want past market commentary on the main markets meticulously distilled into portfolios (per Hulbert) or trading signals (per Timer Digest), the raters do it for you.

On June 15, the venerable Richard Russell underwent an emergency appendectomy. A few hours later, while recovering in the ICU, he dictated an issue of Dow Theory Letters to his wife! How cool is that?

Many thanks to those of you who were surprised at how much you liked the CD by my old band, News (and the liner notes!). The two recording sessions for the record were held in February and November 1973—in each case the month after a major stock market peak—so it’s definitely bull-market music, as some of you noted. By the way, Riverman Music in Asia is using one of the tracks for its second label-sampler CD. The proprietor of Yoga Records went to a lot of effort to make our CD available, so if you have music friends, please tell them about it. It’s recently gotten some more good reviews:

<http://yogarecords.com/artists/news/>

<http://digital.othermusic.com/search/full.php?UID=449760>

<http://www.othermusic.com/2010june30update.html> (click to page; scroll down to yellow CD cover)

AND NOW FOR SOMETHING COMPLETELY DIFFERENT

For many years I have had requests from subscribers to expand upon the *Popular Culture and the Stock Market* report of 1985 (reprinted in *Pioneering Studies in Socionomics*). I have had the enclosed project in mind for some time, and now seems a good time to issue it. I focused intently on the stock market in the April and May issues because I was so sure it was topping right then. Most market commentary seems to be rising to fever pitch now, but we did our job beforehand, so we can relax a bit and have some fun. So, I am taking this opportunity to present a socionomic study showing, with an in-depth example, how social mood regulates the fortunes of public personas such as politicians, sports figures and pop stars. You won’t find this type of insight anywhere else.

Since you subscribe to *The Elliott Wave Theorist*, you are already a special type of thinker. In the financial realm, you don’t listen to conventional ideas anymore, because you realize they don’t work. The social realm is no different: If you think like others, you are more likely to experience failure in your life instead of success. To be ahead of the curve, you have to understand things differently from the way everyone else does. If you *manage* public persons, if you *are* a public person, if you think you might *become* a public person, or if you simply enjoy reading about the trials and successes of public people, you will find value in this report. If Mel Gibson had read it in 2007 and retired, perhaps he wouldn’t be in the trouble he is now. If politicians knew about it, they wouldn’t be suffering in office today, enduring record-low approval ratings; they would be biding their time, waiting for the next ideal time to run for office. Get in tune with the trends of social mood or suffer the consequences.

In an interview for the June issue of *The Socionomist*, I recalled the time in 1975 when I happened to study a wall chart of the Dow while musing over the Beatles’ change in musical style of 1966. This fortunate mental juxtaposition began my thinking about socionomic causality. (For more about it, see *Prechter’s Perspective*.) This month’s issue extends that early observation. If you like the theme, you can learn more about it in our DVD *History’s Hidden Engine* (<http://www.elliottwave.com/wave/HHE>) and read more every month in *The Socionomist* (http://www.elliottwave.com/wave/the_socionomist).

This issue is four times the usual length, but it will count as only two issues of the *Theorist*. And don’t worry: If in the next few weeks I perceive something crucial to say about markets that the *Financial Forecast* and *Short Term Update* haven’t covered, I will, as always, immediately issue a special bulletin. Until then, relax and enjoy this very different issue.