



# The SOCIONOMIST

A publication of **The Socionomics Institute**

[www.socionomics.net](http://www.socionomics.net)

A monthly publication designed to help readers understand and prepare for major changes in social mood.

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## ASSET BUBBLES DON'T SURPRISE SOCIONOMISTS

By Alan Hall

Most people—including Alan Greenspan, Ben Bernanke and the lion's share of economists—think that it is impossible to predict asset bubbles. For example, a June 10 article in the Harvard Business Review (HBR), "Why Asset Bubbles Will Always Surprise Us,"<sup>1</sup> starts like this: "It would be nice if we could predict bubbles; even nicer if we could prevent them."

We *can* predict bubbles. In fact, socionomics predicted the biggest asset bubble of all time a decade *before* it inflated, as the following quotes from *The Elliott Wave Theorist* demonstrate:

- November 1982: "Make no mistake about it. The next few years will be profitable beyond your wildest imagination. Make sure you make it while the making is good. Tune your mind to 1924."<sup>2</sup>
- April 1983 Special Report: "In 1982 the DJIA finished a correction of very large degree. The evidence for this conclusion is overwhelming ... . The advance following this correction will be a much bigger bull market than anything seen in the last two decades ... . The 1920s' bull market was a fifth wave of a third Supercycle wave, while Cycle wave V is the fifth wave of a fifth Supercycle wave. Thus, as the last hurrah, it should be characterized at its end by an almost unbelievable institutional mania for stocks and a public mania for stock index futures, stock options, and options on futures ... . Investor mass psychology should reach manic proportions, with elements of 1929, 1968 and 1973 all operating together and, at the end, to an even greater extreme."<sup>3</sup>
- August 1983 Special Report: "With sentiment, momentum, wave characteristics and social phenomena all supporting our original forecast, can we say that the environment on Wall Street is conducive to developing a full-blown speculative mania? In 1978, an Elliott analyst had no way of knowing just what the mechanisms for a wild speculation would be. 'Where's the 10 percent margin which made the 1920s possible?' was a common rebuttal. Well, to be honest, we didn't know. But now look! The entire structure is being built as if it were planned. Options on hundreds of stocks (and now stock indexes) allow the speculator to deal in thousands of shares of stock for a fraction of their values. Futures contracts on stock indexes, which promise to deliver nothing, have been created for the most part as speculative vehicles with huge leverage. Options on futures carry the possibilities one step further. And it's not stopping there. Major financial newspapers are calling for the end of any margin requirements on stocks whatsoever. 'Look-back' options are making a debut. S&Ls are leaping into the stock brokerage business, sending flyers to little old ladies. And New York City banks are already constructing kiosks for quote machines so that depositors can

*As a bonus feature this month, we bring you an in-depth report from Robert Prechter. Bob published his "Beatles Study" earlier this month in The Elliott Wave Theorist. The 40-page report is destined to become a classic, and we don't want you to miss it. [Click here to download](#). Also in this issue:*

- 1 Can You Predict an Asset Bubble?
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***"At the peak of the fifth wave, the spectacle could rival Tulipomania and the South Sea Bubble."***

***– The Elliott Wave Theorist,  
August 1983***

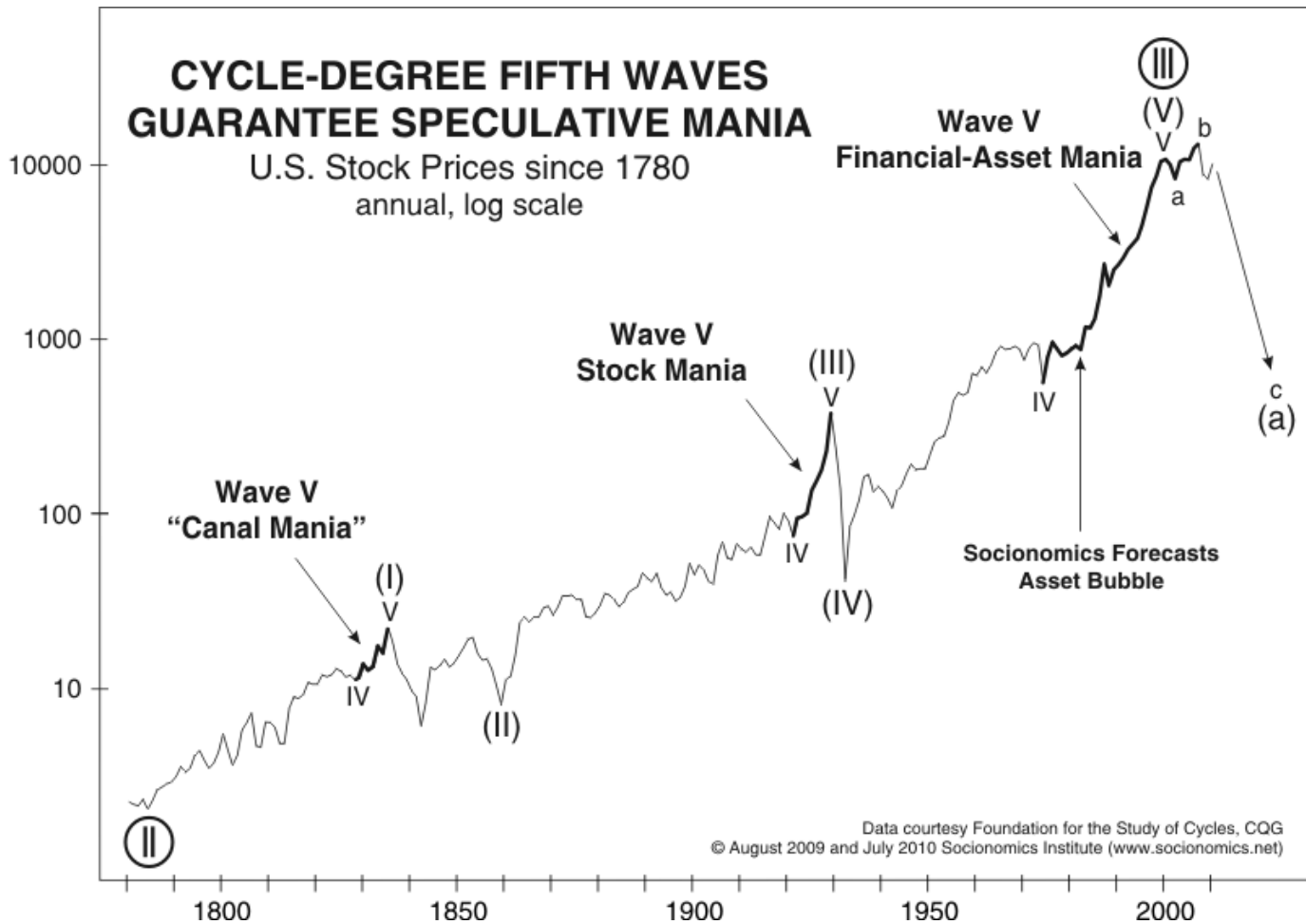


Figure 1

stop off at lunch and punch out their favorite stocks. Options exchanges are creating new and speculative instruments—guess the C.P.I. and win a bundle! In other words, the financial arena is becoming the place to be. And, as if by magic, the media are geometrically increasing coverage of financial news. New financial newsletters and magazines are being created every few months. Financial News Network is now broadcasting 12 hours a day, bringing up-to-the-minute quotations on stocks and commodities via satellite and cable into millions of homes. Remember, this is just the set-up phase ... . At the peak of the fifth wave, the spectacle could rival Tulipomania and the South Sea Bubble.<sup>4</sup>

Socionomics both recognized the asset bubble in its infancy and described its maturity. As far as we know, it is the only financial, economic or sociological theory to do so.

Figure 1 is an updated chart from "The Wave Principle Delineates Phases of Social Caution and Ebullience," a study in the August 2009 issue of *The Socionomist*.

It shows the utility of Elliott wave pattern analysis in predicting asset bubbles and even their breadth and amplitude. Note that as this Grand Supercycle wave III advanced, each Cycle-degree fifth-wave asset mania was larger, lasted longer and involved more asset classes than the one before.

### Can We Prevent Bubbles?

Calls for financial fixes and regulation always *follow* large-degree fifth waves. Today's regulatory clamor is just the beginning. The author of the HBR article also proposes ways to prevent asset bubbles, specifically:

- Make sure public leverage does not become excessive.
- Identify sources of "hidden leverage."
- Impose shorter term limits on certain public officials, for example the chairman of the Federal Reserve.
- Develop methods to recapitalize the financial system more quickly.
- Develop better corporate governance protocols.

Observe that these prescriptions did not pre-date the asset bubble or even its bursting. Socionomics predicts bubble-prevention articles to appear after bubbles, not before them.

Even if prevention were possible, it is already too late. The 28-year asset mania of wave V is over. The next slim chance for bubble conditions should be a smaller-degree fifth wave near the peak of wave (b), years or decades from now. By then, society will have long forgotten these remedies.

There is a deeper issue, which is that none of the HBR article's well-intentioned suggestions can work. During a euphoric social mood advance, very few CEOs, politicians, regulators or ratings agencies are motivated to investigate excessive or hidden leverage, limit the term of a central-bank maestro, investigate financial fraud, rein in banker's speculations, set aside capital as deflation insurance or tighten corporate governance. Social mood *prevents* such pre-emptive solutions. As socionomists including Robert Prechter, Pete Kendall and John Nofsinger have shown, regulation simply does not happen when social mood is rising and inflating a bubble. The mechanistic "throttle" that Keynesians believe can regulate the economy doesn't exist, but even if it did, authorities would never use it as theoretically intended. History repeatedly demonstrates that human passions will not decelerate *or accelerate* on command. Unconscious social mood is the engine, and it has no exogenous throttle. To his credit, the HBR author nearly said so:

No system can be perfectly self-conscious. The kind of immediate social awareness that would prevent bubbles

from forming or bursting is a physical and mathematical impossibility.<sup>1</sup>

The desire to prevent or ameliorate asset bubbles is a natural result of a flawed assumption. That is, that social policies can control herding behavior. They cannot, because herding behavior is unconscious.

Patterned fluctuations in social mood govern human social progress and regress. Bubbles and their destructive aftermaths are a natural part of that process. We can't prevent bubbles, but with socionomics, *we can predict them*—and, as individuals, employ them to our advantage and then avoid getting hurt in the aftermath. ■

*Alan Hall writes for The Socionomist. His most recent article was a two-part study in the April and May issues on authoritarianism.*

## CITATIONS

- <sup>1</sup> Posner, K. (2010, June 16). Why asset bubbles will always surprise us. Harvard Business Review, retrieved from <http://blogs.hbr.org/finance-the-way-forward/2010/06/why-asset-bubbles-will-always.html>.
- <sup>2</sup> Prechter, R. (1982, November). The Elliott Wave Theorist, 3.
- <sup>3</sup> Prechter, R. (1983, April). A rising tide: the case for wave V in the Dow Jones Industrial Average. The Elliott Wave Theorist, 2, 3, 6.
- <sup>4</sup> Prechter, R. (1983, August). The superbull market of the '80s: has the last wild ride really begun? The Elliott Wave Theorist, 3, 5.

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## MUSINGS

### ■ Herding at Heathrow

by Euan Wilson

We socionomists have a favorite expression: "Socionomics changes the way you read the newspaper." I'd like to add something to that: "... and the way you watch people reading the newspaper."

Recently, I was in London's Heathrow Airport and observed an amusing example of one of the tenets of socionomics—human herding—hard at work.

At our most self-indulgent, we all like to see ourselves as free-thinking individuals in a herd of human sheep. "Yes, everyone else is a slave to the herd, but I'm a free thinker!" The internet has popularized a classic term for the mindless herders: sheeple.

Sheeple are sheeple, except when they're not. If you've seen Robert Prechter's speech at the London

School of Economics, you already know where I'm going with this. Prechter asserts that no, people aren't stupid. It's when they're uncertain about a choice that many people make errors that, in hindsight, are completely and obviously ridiculous. Uncertainty is an unpleasant mental state, and the brain's limbic system demands that we resolve it NOW. So what is the most comforting thing to do when we're uncertain? Follow what everyone else is doing. Herding was very helpful for avoiding a stone-age lion mauling, but today it can cause real agony in the civilized jungle of stock market trading floors.

At other times, herding can make people look ridiculous in the airport. But before I kick around my fellow passengers too much, I will admit the circumstances that led to my story were unsettling to a traveler for a number of reasons.

***“... when you add the context of a delayed flight, a changed gate, three other flights that also are leaving from the same gate, and a miniature bus station inside the airport, you can understand why some trepidatious uncertainty could arise.”***

Technical issues had both delayed my flight and changed the departure gate from Gate 8 to Gate 10. Further, Gate 10 in Heathrow is not a typical gate. Most of the time, one number means one gate. Not so with Gate 10: It is actually four gates. 10A, 10B, 10C and 10D, with each gate servicing a different flight. Meanwhile, all the subordinate gates share a common waiting area, so that passengers to many very different destinations are mixed in amongst each other.

Adding to the confusion is the issue that none of Gate 10's extensions connect directly to any planes. Gate 10 is on the ground level of the terminal, below all the other gates, and acts as a bus station. Buses ferry passengers to planes, which they then board via a stairwell.

For an experienced Heathrowian, climbing a set of stairs to your plane is not especially alarming. But when you add the context of a delayed flight, a changed gate, three other flights that also are leaving from the same gate, and a miniature bus station inside the airport, you can understand why some trepidatious uncertainty could arise.

At first, everything was fine. The British have a compulsory need to read the newspaper (the flavor of choice for most of my flight-mates was the Daily Mail) when they wait for things; the Americans were tick-tacking away at their iPhones. Everyone, myself included, frequently looked up to check the LED display that would tell us what to do next. All the information we needed was there. Flight BA227, proceed to Gate 10A, precisely where we were, delayed to 11:15 am. All we need do was wait for that LED to tell us to board the buses.

And then, something happened. British Airways made no announcement, nothing changed on the flight board, and no employee beckoned the public forward. But one gentleman got up, walked over to the checkpoint with his boarding pass in hand, and stood there waiting. No staff came over to scan his pass and allow him through, and he obviously didn't have a question. He was just ready to get moving.

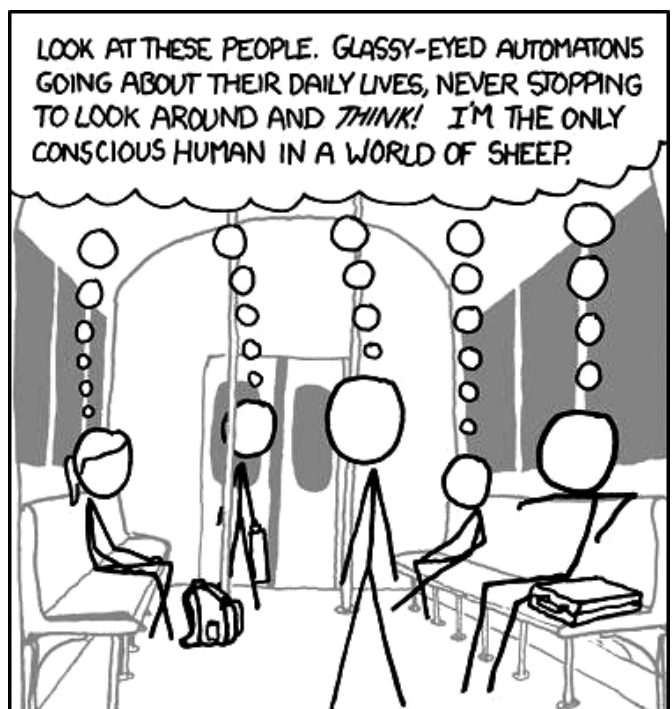
But the rest of our passengers didn't see it that way. Within 60 seconds, a line of 10 people had formed. Moments later, more than two thirds of the passengers were standing in line, unable to read their papers or fiddle with their iPhones because they now had to shuffle bags, boarding passes, folded newspapers and passports.

I watched this process happen and noted the time with curiosity. A full 12 minutes later, the gate staff finally began scanning passes and loading people onto the buses. I put my copy of *SuperFreakonomics* away and stood in line for about 25 seconds.

This is what happens when people don't know what to do in the face of an important outcome. They will clutch at any semblance of order. Any person who makes a decision in this uncertain situation, so our limbic systems argue, is moving toward a solution, and we're fools not to do as they do. I will confess that I, too, felt a strong urge to join the line and stand awkwardly.

But it wasn't necessary. The realization that what I was feeling was an impulse to herd allowed me to keep my comfortable seat and continue enjoying the fascinating insights of Levitt and Dubner. I sat contentedly, kept an eye on the LED board, and murmured a silent thank you for my early education in socionomics. ■

*Euan Wilson writes for The Socionomist. His most recent article was “Socionomics and Fibonacci” in the March issue.*



## TWO BOOKS OFFER TAKES ON SOCIONOMICS

Two books discussing socionomics have just hit the scene. One offers a friendly and accessible presentation of the nascent science, the other a proposal to retool governments' regulatory approach according to socionomic precepts.

Both authors, John Casti and Constantin Malik, are respected academics with business experience. They are also longtime friends of the Institute. We're delighted to give *Socionomist* readers a look inside their works.

First, John Casti's *Mood Matters: From Rising Skirt Lengths to the Collapse of World Powers*: The book is a thorough introduction to socionomics, yet Casti conveys the subject in an accessible, informal style.

*Mood Matters* addresses all of the questions central to socionomics: What is mood? How does social causality work? Why are stock markets such reliable sociometers? And so on.

The author also echoes many of Prechter's and Kendall's expositions of social mood's connections to music, movies, sports and other cultural phenomena.

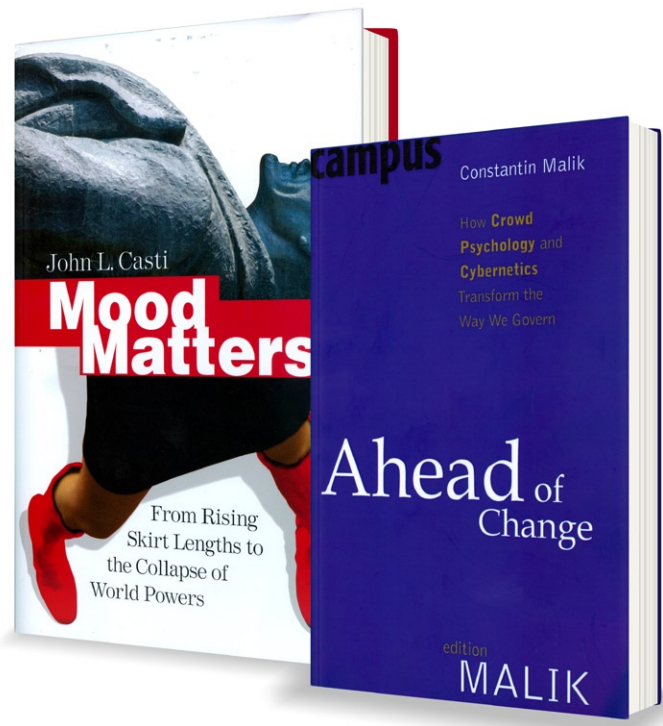
Casti delivers several amusing anecdotes and references. Here, for example, is his explanation of The New Yorker's HW (Hot Waitress) Index:

When mood is positive and the birds are singing, extremely attractive young people of both sexes are in great demand for selling everything from exotic cars to premium brand toothpicks. This leaves the more mundane jobs like waiting tables to the genetically less well endowed. But once mood turns down [so does the economy and], all bets are off.

The book is also quite serious. The "Collapsing World Powers" in the title refers to the socionomic prediction of the fates likely to befall the European Union, the United States and others, should mood continue to trend toward the negative.

Tucked into Casti's discussion of Millennium waves is this nugget:

Just as hurricanes come around in a predictable cycle, even though specific timing, landfall locations, and intensities of these storms are a matter of probabilities, not certainties, the social mood of a population also rises and falls in accordance with a pattern that is every bit as predictable—and unpredictable—as the vagaries of



**Fresh approaches:** A far-reaching introduction (left); a proposal for government regulators (right).

hurricanes. Both are law-like phenomena, one governed by the laws of nature, the other governed by the laws of human nature. And to complain about either or to imagine you can somehow escape these laws is about as useful as complaining about the sun rising in the east and setting in the west each day. Maybe one day the solar pattern will be reversed. And maybe one day basic human nature will change, too. But neither one is the way to bet.

As you can see, John Casti brings an engaging new voice to the topic. *Bink's Books* (Vol. 21, Issue 1) notes: Why should you read this book? For the excitement of seeing a new field born before your eyes. For the challenge explicitly posed by the detailed research agenda Casti proposes to further explore these ideas. ... *Mood Matters* can and should change the world; for its readers, it will surely do so.

We recommend Casti's book for any fan of socionomics. For newbies, we recommend it as a companion to Robert Prechter's *Socionomics* book set.



♦ *Mood Matters*: <http://www.socionomics.net/mood-matters-john-casti/>

♦ *Socionomics* book set: <http://www.socionomics.net/books.aspx>

Constantin Malik's *Ahead of Change: How Crowd Psychology and Cybernetics Transform the Way We Govern*: Malik's tome is shorter than Casti's (Malik's is well under 200 pages; Casti's just over) but a more challenging read.

*Ahead of Change* is built on this premise: The laws that presently govern society are reactive; they trail social mood changes. Ideally, society should be able to anticipate these developments and craft legislation proactively. Malik does argue that for governments to do so is virtually impossible given contemporary legal structures and political systems, and we agree. Therefore, he suggests a fundamental revolution in the way society governs and makes laws.

The tools Malik advocates to accomplish his proposed revolution are (1) management cybernetics—the study of the effective organization and functioning of complex and dynamic systems—and (2) socionomics. Much of Malik's slender volume is given first to a discussion of crowd phenomena and then to a well-rounded explanation of socionomics, fractals, Fibonacci numbers and Elliott wave theory.

Malik lists roadblocks to overturning the current legislative system, among them lobbying by special interest groups and leaders' focus on satisfying constituents' short-term demands. His potential solutions include finding a mechanism to allow legislatures to focus solely on revising existing laws and preparing new ones without remaining

yoked to the whims of the herd, and creating a staff of socionomists to advise legislatures:

I believe representatives should have a basic understanding of socionomics. They should know what it is, how it works, what it can do and especially also what it cannot do. ... Among the administrative lookout staff need to be experts in socionomics. They need to understand the crowd psychological mechanisms on which it is founded; they need to understand Fibonacci mathematics and fractal geometry. I believe this is indispensable for the right kind of information to be gathered and for it to be interpreted correctly.

Malik is savvy enough to realize that today's societies have miles to go before they embrace socionomics and his recommendation for change.

The ideas ... might be called "utopian" by some, but it is my conviction that they point in the direction that we must follow if progress is to be achieved.

As we have pointed out, governments are notorious laggards when it comes to social mood. They are, simply, the last to act. Bureaucratic bodies are as buffeted by mood as are other groups, but legislative decision-making processes are lengthy and complex, and then when ruling bodies finally do make a decision, marshalling resources takes yet more time. This is one reason wars are typically launched after lows instead of astraddle them, for example. We deeply admire Malik's goals. Whether or not governmental change is possible, the book is a provocative read and we strongly recommend it for anyone interested in public policy.

♦ *Ahead of Change*: <http://www.socionomics.net/ahead-of-change-constatin-malik/> ■

## About the Authors

John Casti is a prolific writer and editor with award-winning textbooks, technical monographs and science books to his credit. He is a research scholar at the International Institute for Applied Systems Analysis in Laxenburg, Austria and heads an initiative



Juan Esteves

Casti

for the study Extreme Events in Human Society. Casti cofounded The Kenos Circle, a Vienna-based society devoted to exploration of the future.

Constantin Malik is secretary of the board for Malik Management, a management consulting firm in St. Gallen, Switzerland. He holds a master's degree in law and a doctoral degree in psychology, and is an expert in management cybernetics. A steadfast



Malik

supporter of socionomics, Malik was among the first to teach a college course on the subject at the University of Klagenfurt in Austria.

## THE WAR OVER DRUGS

### Is There Any End in Sight?

Longtime subscribers will recall Euan Wilson's landmark drug war study from a year ago, "The Coming Collapse of a Modern Prohibition" (*The Socionomist*, July 2009). When we published his report, Wilson's forecasts looked downright radical. Now they appear merely prescient. And Wilson notes that the drug war has reached an important new violence milestone this month.

"The Coming Collapse" compared drug-related violence in Mexico to Chicago's gang wars of the 1930s. Wilson predicted a dramatic escalation in bloodshed and, eventually, cries for legalization to end the killing, just as happened with the earlier prohibition.

Wilson's forecasts are unfolding in sequence. At press time, the Mexican border region is reeling from two shocking drug-related attacks. A particularly sinister car bomb incident, the country's first in this drug war, occurred July 15. Gang members dressed a wounded man as a police officer and left him on the street in Ciudad Juarez. Then they called emergency services, luring real police to the scene. When the first responders arrived, the executors triggered the car bomb and killed four people—including two police officers—and wounded another 11. Mexican police blame La Linea, an armed wing of the Juarez cartel. The *Christian Science Monitor* said that with the attack, the "Columbianization" of Mexico is nearly complete.

***"... the 'Columbianization' of Mexico is nearly complete."***

**— The Christian Science Monitor,  
July 18, 2010**

Then on July 18, five SUVs full of what Reuters referred to as "hitmen" rolled up to a birthday party and opened fire. The killers murdered at least 17 people and wounded another 18, most of them in their 20s. The birthday boy, who was among the victims, has been identified only as Mota, Mexican slang for "marijuana."



**Drug war violence escalates:** A car bomb in Ciudad Juarez, Mexico.

The massacre took place in Torreón, a city about 200 miles from the Texas border.

Ciudad Juarez, the site of the car bomb, shares a border with El Paso, Texas.

Remarking on July's violence, Wilson says, "Not only have more than an estimated 24,000 people died in the past three and half years in the drug war, but the tactics appear to be escalating. The first car bomb is a meaningful step up from the traditional kidnappings and executions. The cartels are all getting more creative with their businesses, selling pirated goods, tapping into oil pipelines to steal fuel and of course extorting families of kidnapped officials. The sheer size of the cartels already dwarfs anything we saw in Chicago in the early 1930s. But most of all, the cartels are becoming more and more organized by the day."

Violence in the region is reaching such extremes that Tony Payan, a political science professor at the University of Texas at El Paso, told Bloomberg that residents in the border town of Ciudad Juarez are abandoning homes. The town was the location of another birthday party shoot-'em-up back in January. Some 2,600 murders were reported in Ciudad Juarez in 2009, an average of seven a day. Drug violence in Mexico claimed 9,000 lives nationwide in 2009, but it has already accounted for 7,000 deaths in the first six months of this year, according to the Mexican government.



**The Drug War moves north:** Torréón and Ciudad Juárez, Mexico, were the scenes of particularly gruesome drug-war violence this month. Torréón lies about 200 miles south of U.S. territory; Ciudad Juárez is a border city. Fishermen in Falcon Lake, southeast of Laredo, have been attacked by Mexican gang members.

“This is one of the bloodiest periods in Mexican history,” said Payan, who also teaches at the Autonomous University of Ciudad Juárez. As many as 90 percent of the victims in these altercations, he adds, are “closely tied” to the drug trade.

Like Prohibition-era bootleggers, the bad guys here are gangs of thugs competing for smuggling routes into lucrative markets. A year ago Wilson predicted that the violent battles would edge ever closer to U.S. borders and then spill over in a full-scale gangland turf war. Wilson predicted that California, Arizona, New Mexico and Texas would see the kind of horrors then plaguing Mexican states. In late May, the AP reported that fishermen in Falcon Lake, on the Texas-Mexico border, have been robbed at gunpoint by “pirates.” The local sheriff called the attacks a byproduct of fighting between Mexican drug gangs. In early June, the U.S. and Mexico were engaged in a dispute over the death of a Mexican teen—allegedly shot for throwing rocks at U.S. border patrol agents.

On the U.S. side of the border, the call for legalization is growing. Oakland, Calif., has become the first U.S.

city to impose a special tax on medical marijuana dispensaries. In July the Oakland city council voted to legalize large-scale marijuana cultivation for medical use and will issue up to four permits for “industrial” cultivation starting next year. According to Reuters, the strongest opposition to the vote came not from the anti-pot crowd, but from small-scale growers who fear they’ll be squeezed out of the marketplace. In Berkeley, the city council met in July to discuss adding a medical marijuana tax to the city’s November ballot.

Also up for vote in November: Proposition 19, which would make California the first U.S. state to legalize the recreational use of marijuana and authorize cities to sell and tax it. Oakland resident Richard Lee, who owns two of the city’s four dispensaries and a trade school for the medical marijuana industry, is sponsoring the measure.

In fact, the Bay area is so supportive of legalizing marijuana that in late June the pot-friendly counterculture magazine High Times hosted its first Cannabis Cup on American soil, in San Francisco. The publication has held a similar event in Amsterdam for the past two decades. Prizes were awarded in several categories to medical marijuana growers. Although several states have legalized medical marijuana, selling and growing it remain illegal under U.S. federal law.

All of this is simply background for what’s to come, Wilson says. As drug violence progresses north of the border, he wrote a year ago, “the dialogue about marijuana decriminalization will cease to center on morality and instead will shift to stopping the ... bloodshed.”

***“The dialogue about marijuana decriminalization will cease to center on morality and instead will shift to stopping the ... bloodshed.”***

As to the drug war itself, “‘Mexican violence’ is becoming ‘Mexican violence on American soil,’” Wilson warns. “At first, the U.S. response will be to push back with force, perhaps even with the military. But later as the bear market continues, advocates will say it’s time to give up on trying to cut off the supply of drugs and go for what they believe is the root cause of the mayhem and deaths: drug ‘prohibition.’” ■



## SIGNS OF A SHIFTED MOOD: JULY 2010

### It's Downhill

Social mood continues its slide at both Primary and Cycle degrees. As it does, social events are lining up accordingly.

#### POLITICS & GOVERNMENT

##### How Low Can Sarkozy Go?

Three short years ago, France's president, Nicolas Sarkozy, was a hero astride the world. The international press likened him to Napoleon (see The Economist's cover, below).

Not anymore. As socionomist Alan Hall showed back in 2008, the French president's fortunes wax and wane tightly with the country's CAC-40 stock index. Sarkozy entered office in May 2007 with mood flying and the CAC trading at 6,000+. The new president enjoyed near-record approval ratings of 65 percent. Just three years later the

CAC is down 40 percent; on July 7, the index dipped near its lowest point in almost a year. On cue, scandal—a by-product of bearish mood, according to socionomics—erupted, with investigators accusing Sarkozy's campaign of accepting a large illegal donation during the run-up to his 2007 election. On July 11, Sarkozy's UMP party lost a special election in a traditionally conservative district. On the 15th, yet another poll showed that voters would prefer a socialist to Sarkozy.

Various voter surveys put the president's current approval rating between 26 and 33 percent. The press now notes that Sarkozy is the least popular French leader of the past 30 to 50 years.

France's next presidential election comes in 2012. Without a significant recovery in the nation's social mood, Hall says, Sarkozy's presidency might not even last until then.

##### Back in the USSR?

At press time, Russian President Dmitry Medvedev is expected to sign an authoritarian new bill that has already cleared the Russian Parliament's lower house. The measure will allow the Federal Security Service (FSB—the

successor to the KGB) to issue warnings to people whose actions—though not illegal—"create the conditions for a crime." According to The New York Times, Russia's leading rights watchdog has noted the similarities between the bill and a 1972 decree that allowed the KGB to warn citizens not to engage in "antisocial activities that contradict the state security of the USSR" even if those activities do not violate laws. The KGB's "warnings" were used to intimidate dissidents.

It is not yet clear precisely what shape the FSB warnings might take, including whether violence—or its threat—are among the government's options. It is also unclear how the government will determine suspects' readiness to commit a crime, although increased surveillance is sure to play a role.

***"It is not clear how the Russian government will determine suspects' readiness to commit a crime, although increased surveillance is sure to play a role."***

Prime Minister Vladimir Putin, a former KGB agent and FSB director, backs the Russian bill. Putin and other supporters say the measure is necessary to check the kind of extremist violence that claimed 40 lives on Moscow's metro system in late March.

On the western side of the Atlantic, the National Security Agency (NSA) of the United States is launching a program called "Perfect Citizen" to protect infrastructure such as power grids and transport systems. The effort will place sensors inside private and government computer networks to ferret out activity that might presage a cyber-attack. Defense contractor Raytheon won the first phase of the job; The Wall Street Journal reports that an internal Raytheon memo reads "Perfect Citizen is Big Brother." The NSA denied the characterization. It says Perfect Citizen is a "research and engineering effort" that will not involve monitoring of communications but will provide the NSA with technical solutions to help it better understand threats to national security networks.

In May 2010, *The Socionomist* predicted that as the negative mood deepens, many governments will become increasingly authoritarian and use the fear of terrorism to institutionalize a culture of surveillance and control.



**Riding high:** Nicolas Sarkozy as Napoleon in 2007.

## ENVIRONMENT

### Justice Delayed

Twenty-five years ago, a subsidiary of Union Carbide released toxic gas into the area around Bhopal, India, killing some 4,000 people. As many as 15,000 people have died from the accident's lingering effects. In early June 2010, an Indian court finally convicted seven former senior Union Carbide employees of "death by negligence."

Socionomics explains the timing of the incident, the long delay, and the timing of the conclusion. The event took place in 1984 at a low in India's stock market, and the country's ensuing optimistic mood stymied prosecution. More than a quarter-century later, the newly established negative trend in mood led to convictions.

Should BP execs be accused of negligence in the Gulf of Mexico oil spill, a social mood downtrend will ensure that they will not enjoy so long a reprieve.

## SPORTS

### 2010 World Cup—A Bear for Incumbents, a Battle for All

Socionomics holds that bear markets are bad for incumbents seeking re-election. This summer saw that relationship to incumbents play out on a different kind of field—the football pitch.



Getty Images

**The most violent World Cup yet?** The Netherlands' Nigel de Jong lands a vicious kick to the chest of Spain's Xabi Alonso.

## YOU CAN USE SOCIONOMICS WHEREVER YOU ARE

### From the Editor

Each dawn, it seems, brings some new bit of evidence that the world is beginning to embrace socionomics. We've been impressed of late with several subscribers' application of the science to real life. For the last issue, for example, Michael Flagg wrote passionately about the need for military and political strategists to include socionomics in their planning—or dangerously miss the impact of major mood swings. Just last week we heard from a subscriber who is using socionomics to help a friend—a former big-time pop star—map his career in light of social mood and, they hope, get back on track. Next issue we plan to include a letter from a Turkish expat who is noticing some disturbing authoritarian trends in his homeland (see TS April and May 2010, "The Wave Principle Governs Fear and The Social Desire to Submit" and "The Source of Authoritarian Expression, and The Road Ahead" by Alan Hall).

Whatever your station in life, wherever you live, whatever your career and home situation, socionomics is a prism through which you can gain valuable new perspective on your world. Our job is to help you understand this unique model so that you can apply it. May you do so to great utility and profit.

See you next issue.

— Mark Almand  
Editor

In the 2010 World Cup tournament in South Africa, both of the sitting finalists—2006 champions Italy and runners-up France—were eliminated famously in the first round, the first time in history it has occurred. The tournament has several connections to the famous negative mood periods of the 1930s and 1970s as well. This year's runner up, the Netherlands, reached the finals for the first time since 1978. It did so by beating Uruguay, which won the first World Cup back in 1930. The Dutch team also beat perennial favorite Brazil for its first victory over the yellow jerseys since 1974. In this year's July 3 quarterfinal match, both Spain and Paraguay missed penalty kicks—the first time that has happened in a Cup since the match between Argentina and Mexico in 1930.

Coincidence? Maybe. Here's another: In the Spain-Netherlands final, English referee Howard Webb doled out an alarming 47 fouls and two red-card ejections, in the process setting a World Cup record for the number of yellow-card warnings during a final match (14).

Pundits the world over were hard-pressed to recall a Cup match with as much blatant thuggery, including Nigel de Jong's flying judo-kick to the chest of Spain's Xabi Alonso, for which de Jong was warned but not ejected. We propose the following predecessor: The 1938 World Cup quarter-final clash between Czechoslovakia and Brazil. The mini-war produced five injuries, including one broken leg and one broken arm, and three ejections.

But this summer's most disturbing reflection of Cup-related negative mood comes from elsewhere in Africa. The Somali militant group al-Shabaab, which claims ties to al Qaida, attempted to impose a ban on World Cup viewing in its home country. Members stormed a house in Mogadishu, killed two fans and rounded up 10

others. But those numbers pale in comparison to another killing spree also blamed on the group: explosions in two bars that killed as many as 60 World Cup viewers in neighboring Uganda. The action would be al-Shabaab's first known foray outside Somalia.

## CULTURE

### Movie Moments

In *HSB*, Prechter predicted that as mood spirals down, "films will break new ground in horror, probably with themes that include suicide and torture." Earlier this spring, a movie that prompted CNN to wonder if it could be "the most disturbing ever made" hit the silver screen. *The Human Centipede* is based on a premise that, frankly, is too disgusting to relate in print.

**If you blink, you'll miss it:** When the central character in *Despicable Me*, the world's second-most-nefarious super-villain, seeks a loan for his plan to steal the moon, he visits the Bank of Evil. The bank's sign reads, "Formerly Lehman Brothers." ■

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