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The Elliott Wave THEORIST

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Economic Overview

According to polls, economists are virtually unanimous in the view that the "Great Recession" is over and a recovery is in progress, even though "full employment will take time," etc. Yet mortgage writing has just plunged to a new low for the cycle (see Figure 1), and housing starts and permits just had their biggest percentage monthly drop since January 1991, which was at the end of a Primary-degree recession. But the latest "recession" supposedly ended a year ago. How can housing activity make new lows this far into a recovery? The answer is in the subtitle to *Conquer the Crash*, which includes the word *depression*. The subtleties in economic performance continue to suggest that it "*was*" not a "*recession*." "It *is* a *depression*, moving forward, in punctuated fashion, slowly but inexorably.

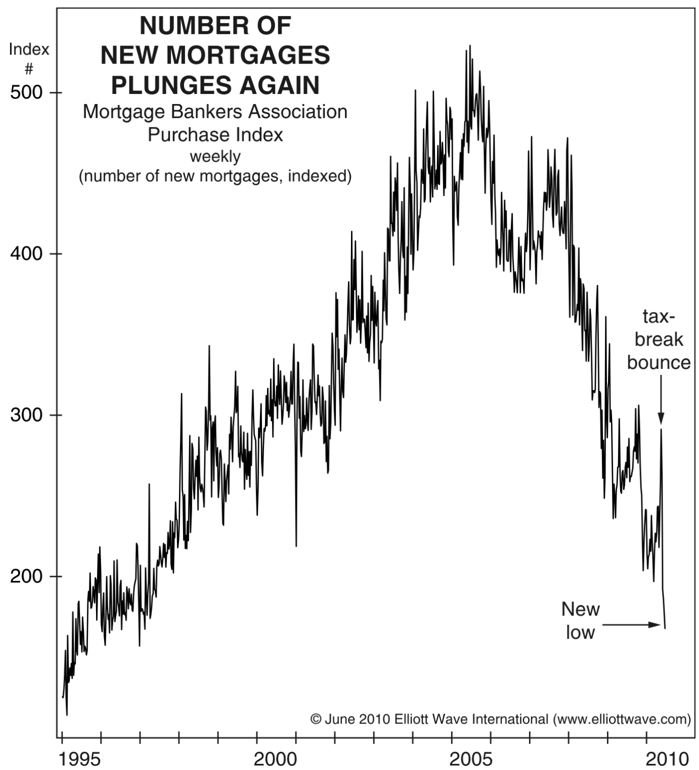

Figure 1

Despite this outlook, keep in mind what EWT said last month: "Even though the market is about to begin its greatest decline ever, *the era of hope is not quite finished*." For as long as another year and a half, there will be rallies, fixes, hopes and reasons to believe in recovery. Our name for this phase of a bear market is the Slope of Hope. This portion of the decline lasts until the center of the wave, where investors stop estimating upside potential and start being concerned with downside potential. Economists in the aggregate will probably not recognize that a depression is in force until 2012 or perhaps beyond. That's the year the 7.5-year cycle is due to roll over (see April issue). Stock prices should be much lower by then, but optimism will still dominate, and it will show up in the form of big rallies and repeated calls of a bottom.

Markets Overview

The clearest market from the standpoint of our Elliott wave model is the U.S. Dollar Index. As Figure 2 shows, it sports a five-wave advance, with alternation (see text, p.63) in the forms of waves (2) and (4). Our bullish stance of late 2009 paid off, as the dollar gained 20% over other major currencies. It was the only financial market to rise that much over the six months from early December to early June. Most other markets worldwide—stocks, commodities and currencies—were down during that time. On the day before the peak of wave (5), Steve Hochberg on our Short Term Update used the "width of the triangle" forecasting method (see text, p.51) to arrive at a target of 88.64; the high was 88.71. This clear pattern of five waves is very important. It means two things: (1) the long term trend is up; and (2) the largest correction since the November 2009 bottom has just started.

This Elliott wave outlook is compatible with sentiment measures. MBH Commodities' Daily Sentiment Index showed an incredible 98% bulls among dollar-futures traders at the peak of wave (3). Those late buyers are already underwater. The wave pattern is also nicely backwards-compatible with the "fundamentals." At the low last year, everyone thought the dollar was doomed; now they all think the euro is doomed. Fundamental stories always provide contrarian cover for market turns.

The stock market is less clear because the Dow does not yet sport five waves down at Intermediate degree. So, the wave pattern has yet to confirm a new downtrend. But two things strongly suggest that a new wave of bear market is in force. First, volume continues to expand on declines and contract on rallies. Second, volatility has soared since the market's peak. These two conditions attend bear markets way more often than bull markets. We therefore maintain our opinion that the April 26 high was the end of the bear market rally that started in March 2009.

In 2007, the inflated S&P overstated how well the stock market and the economy were behaving. Here in 2010, it's the same story. Figure 3 shows the nominal S&P, which everyone watches. Beneath it is the S&P priced in real money, which peaked last August. Below that is the price (inverted) of credit default swaps (CDS) on State of Illinois debt, a leading proxy, along with CDS on California debt, for the whole IOU house of cards. "Recovery" optimism among Illinois' creditors peaked last October, and prices have since taken out their extreme of November 2008, when the first phase of the debt crisis culminated. You can see that the optimism behind the S&P's rally has actually been dissipating, by other measures, for as long as ten months. We suspect that the bottom graph—as with subprime mortgage prices in 2007—is serving as a leading indicator for the economy and the S&P.

Gold is making headlines, and investors are focused on it. But gold is another market whose Daily Sentiment Index recently recorded 98% bulls. Remember, all it took was a 97% reading in the euro late last year to lead to a decline of over 20% in six months. No one seems to be paying attention to the fractured picture in the precious metals complex, either. Silver, platinum, palladium and mining shares all made their highs two years ago. If

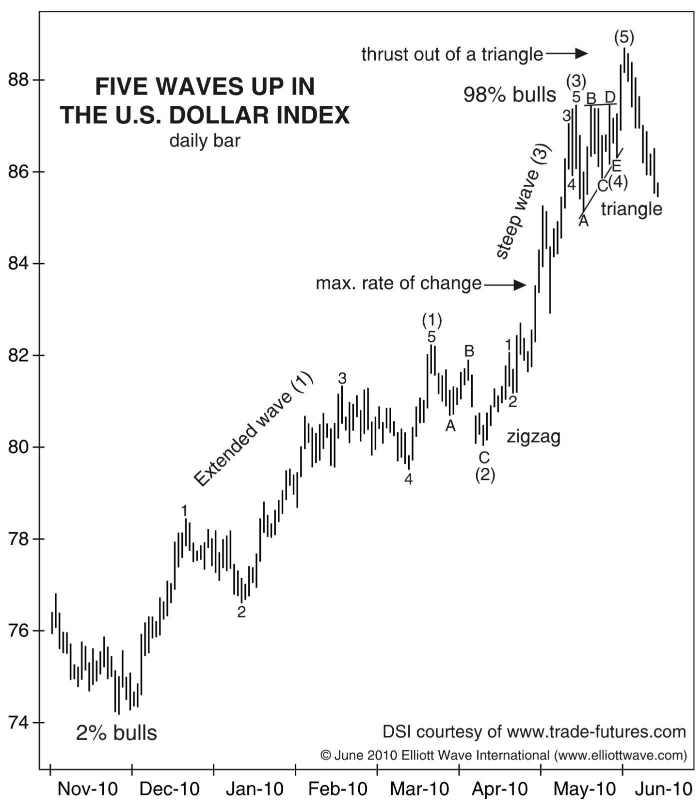

Figure 2

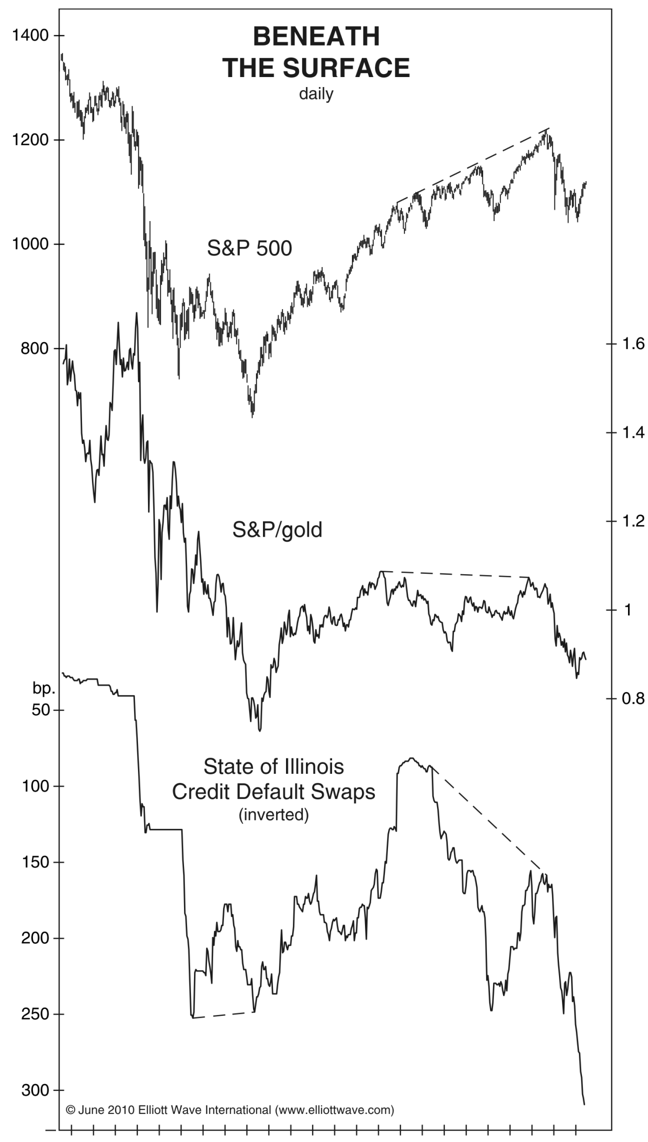

Figure 3

runaway inflation were driving these markets, they would be moving together. Sometimes markets overcome such divergences, but usually they resolve with a reversal of the trend.

Perspective is important here. The March 14, 2008 EWT featured a historical study [visit www.elliottwave.com/wave/GoldandRecessions] making the point that gold tends to go up during economic expansions, not recessions. That study was published three days before that year's peak in the metals. In line with past cycles, gold rolled over with the economy and declined in 2008 *as the crisis intensified.* It fell from $1033 to $681 and silver plunged from $21.40 to $8.39. These metals bottomed in October-November 2008, *at the peak of the crisis.* This is the opposite of what most gold proponents said would happen. Now that the economy has been recovering, gold has been rallying. This is exactly how our study showed gold generally behaves. If gold continues to follow past patterns, it should peak along with the current economic recovery and turn down along with it as well. The Dow is a good leading indicator of the economy, and it peaked two months ago. So, the economy should be getting ready to roll over, taking gold with it. In other words, if you expect an economic collapse, you should expect gold to be lower at the end of it than at the start. This is not to say that gold cannot have a blowoff first, as oil did in 2008 before it crashed. But the extreme level of optimism toward gold should limit its upside potential. The more likely scenario would be for gold to top roughly along with the last "wave two" rally in the stock market.

The Elliott Wave Financial Forecast, due out on July 2, will update the wave counts for all these markets.

TALK ABOUT DEFLATION

The possibility of deflation does not register with many investors. The website Daily Crux—which offers a comprehensive, free daily financial digest—recently conducted an interview that many people have told us helped clarify the issue for them. So with the kind permission of the host, I am publishing the Q&A this month.

> Dear *Daily Crux* reader,
>
> This week's interview is going to rile up the Crux readership. Our interview is focused on what is likely the central investment question of our time: "Is crazed government bailout and stimulus spending going to produce runaway inflation? Or are banks and consumers in such bad shape that demand for goods, loans, and services is set to head lower, which will produce lower prices and deflation?"
>
> The *Daily Crux* staff expects inflation in the long term. But we have no crystal ball, and neither does anyone else. So this week we're talking to the world's highest profile and most outspoken investment guru in the deflation camp, Robert R. Prechter, Jr. Prechter has garnered a wide following with his long career of market calls using a market model called the Elliott Wave Principle, which incorporates the idea that markets are driven by waves of optimism and pessimism. Prechter's work on crowd psychology—called *socionomics*—is some of most insightful analysis you'll read on the subject.
>
> For Robert's take on the "inflation vs. deflation" argument, read on.
>
> Justin Brill
> Managing Editor, *The Daily Crux*

The Daily Crux Sunday Interview

Q&A with Robert Prechter

The Daily Crux: Hi, Bob. Thanks for talking with us today. You've been a successful market analyst for over 30 years, but over the last several years you've become well-known for your outspoken calls for deflation and a big bear market in stocks. In fact, you're probably one of the few market experts calling for outright deflation.

> **Robert Prechter:** That's for sure. You can count staunch deflationists on one hand. There are so few that I can name them.

Crux: Most of our readers are familiar with the arguments for inflation. We saw a crash in 2008. The Federal Reserve and the government responded to the crisis by "printing money," easing credit, and bailing out the banks and big financial institutions. All this easy money and credit will lead to inflation. Can you give us a brief, easy-to-understand explanation of how deflation could happen in a paper-money, reserve currency system like ours, and why you think it's likely?

Prechter: Sure. In the simplest terms, creditors will stop lending, which will keep the credit supply from inflating. And debtors will default, causing the supply of outstanding debt to deflate. This will overwhelm government and central-bank efforts to inflate, and will result in deflation. These trends have already begun.

Believe me, I understand people's resistance to this scenario. The case for runaway inflation seems so logical. Over the past eight years, the Fed's lending rates have twice fallen to zero, meaning that credit is free. The Fed has created $1.5 trillion of new money. Central banks around the world have offered unlimited, cost-free credit. The government is spending money like mad. And the Fed and the Treasury have bailed out or guaranteed another trillion or two of bad debt and promise to cover even more. Oh, and the Chairman of the Fed swore eight years ago that he would drop money from helicopters.

There is only one problem with the logic involved: It does not lead us to present conditions. In the great inflations of history –such as what occurred in Germany in the 1920s and Zimbabwe in the 2000s—several things happened: The money supply zoomed; interest rates soared to double and triple digits; commodity and stock prices went up; consumer prices rose relentlessly; and people raced to get rid of money as fast as they got hold of it.

Today, not one of these events is happening. In fact, the opposite is happening: M3 (a measure of the amount of money and credit in the system) is contracting at its fastest pace since the 1930s. Interest rates on Treasury bills are stuck at zero. The CRB index of commodities is at half its value of just two years ago. The stock market is lower than it was 10 years ago. The PPI and CPI (measures of producer and consumer prices) have a zero rate of change. People are struggling to get anyone to part with a dollar: They can't get loans, they can't sell their houses, and they can't land a job. And Walmart is cutting prices. This is the "Bizarro" version of Germany and Zimbabwe: everything's backwards.

Crux: Well, not everything. Gold is at all-time highs.

Prechter: And so are Toronto real estate and vintage wine. But let's put these markets in perspective. There have been three great credit-inflation peaks over the past ten years. In 2000, many stock markets around the world stopped going up. In 2006, real estate stopped going up. In 2008, commodities stopped going up. Stocks, commodities and real estate are three massive markets worldwide.

Here in 2010, a few late bloomers are making new all-time highs. I never thought the long term inflationary topping process would take this long, but it has.

At each of these peaks, investors have focused on one area or another. Every time it's happened, the area of focus has reversed trend, plummeting in price by 50% or more.

This latest credit reflation is the weakest yet, so it hardly inspires confidence that today's isolated bull markets will end any differently. Each time a bull market matures, investors are sure it can't reverse. They said that about technology and internet stocks; they said it about real estate; they said it about oil. Now that a couple of markets are at all-time highs, we hear the same argument about them. This is natural, because investors always want to own markets that are way up. But investors in those previous booms are never going to get back to break-even. Many of them were ruined.

Crux: OK, but what do you say to the argument that the Fed has the power to create inflation—to create an unlimited amount of money and credit, and inject it into the economy—at will? And because of this deflation is practically impossible?

Prechter: This is the argument I answered way back in early 2002 in my book, *Conquer the Crash*. Since it came out, the Fed *has* offered unlimited credit. It *has* been injecting money. Yet there has been no runaway inflation.

There are so many problems with this argument that I can't fit them all in a short space. But I'll mention four key points.

First of all, the banks are ruined. They lent out every penny of deposits, and their loans are increasingly non-performing. They can't borrow any new money, because they're already underwater. And consumers are also broke, so they can't borrow more, either. Unlimited Fed credit is irrelevant. No one can afford to pay banks interest any more.

Second, the only active creditors left are sovereign governments. And as Greece proved, governments have limits. They can't print their way out, because creditors will abandon them if they do. They need their creditors too much to choose printing. Greece agreed to austerity. Britain is talking about austerity. The Tea Partiers are demanding austerity. At some point, members of Congress will have to stop borrowing and spending, because voters will oust them if they don't.

Third, the idea that the Fed can inflate "at will" is going to be challenged. Is the Fed going to monetize—what's often referred to as "money-printing"—another $57 trillion worth of dollar debt, shore up trillions more of foreign debt and guarantee $600 trillion worth of derivative promises? Not likely. Can the Fed's $2.3 trillion balance sheet—already over-inflated—keep a quadrillion dollars worth of worldwide IOUs from imploding? Not a chance. Its own governors are already fighting about the monetization it orchestrated in 2008-2009. The Fed has been historically accommodating so far, but cracks are appearing in its resolve. Some of its own governors disagree on Bernanke's extreme policies, and that's after monetizing only 1/7 of 1 percent of the world's outstanding IOUs.

Fourth is the crucial importance of social psychology. Voters are getting angry about the bailouts. Congress is talking about auditing the Fed for the first time since it was created in 1913. Suddenly Ron Paul is popular, and he wants to abolish the Fed. These changes are not random. They come about because of the trend away from positive social mood and toward negative social mood. To use a historical example, the downtrend in social attitudes starting in 1835 resulted in the complete elimination of the U.S. central bank. The Fed is ultimately either sanctioned or destroyed by the people, and people's attitudes change. It could easily happen again.

Publications like yours—by pointing out the terrible dangers of central banking and hyperinflation—are helping to promote this new change in social attitudes. People are becoming terrified of inflation and sick of the borrowing that spurs it. That's a good thing in the long run. But it will actually help bring about deflation.

Crux: But, ultimately can't the Fed simply "print" money if it appears deflation is starting to win? The "drop money from helicopters" analogy you mentioned earlier? Wouldn't that prevent outright deflation and ultimately lead to inflation or even hyperinflation as the dollar is devalued?

Prechter: To begin with, the printing analogy is flawed. The Fed does not operate a press, as the government of Zimbabwe did. It creates new money only when it buys IOUs. This may seem to be a distinction without a difference, but it's actually very important. These IOUs are the Fed's assets, and it doesn't want worthless assets backing its notes.

Even if the Fed were to monetize every dime of currently outstanding, dollar-denominated debt, it would create no net inflation. The money-plus-credit supply would be the same. And price levels—especially for investments—are based on the total of monetary assets, not just base money.

Even so, there is no way that the Fed will buy up the entire world's stock of lousy IOUs. It has always wanted pristine assets on its books. Remember, it didn't buy Fannie and Freddie's IOUs until it got the Treasury to guarantee them.

Then there is the so-called moral hazard—not that the Fed cares about morality—meaning that if the Fed were to begin buying everyone's IOUs, people would immediately issue more IOUs as fast as they could and sell them to the Fed. It couldn't keep up with the volume.

But these scenarios are fantasies. In reality, self-preservation will eventually motivate the Fed just as it motivates every other institution. Buying too many worthless assets would cause the Fed's self-destruction, and I think it will balk at going that far.

Crux: OK, so you don't think the Fed will go that far. But what if the government got involved and tried to inflate its way out by issuing massive amounts of Treasury bonds to the Fed? Wouldn't that create inflation?

Prechter: If the government tried to do that, bond holders would get spooked, and interest rates would go up and stay ahead of the printing. At the same time, other credit prices—municipal, corporate and consumer—would implode. When the supply of credit is far bigger than the supply of money—and it is by a huge margin—the value of old credit can contract faster than new bonds can be printed. The net result would still be deflation.

But this is not the most likely scenario. Have you noticed that even the Fed chairman has been telling Congress it needs to stop spending and borrowing? The Fed doesn't want this to happen any more than other creditors do.

If the Treasury's interest rates do soar, it will not likely be due to inflation fears but to fear of government default. If the government is forced to pay higher and higher rates, it will become a black hole for money. Spiraling

Treasury rates would suck money from other sources, causing banks, municipalities and companies to fail, ruining all of their debts, which would be deflationary.

Crux: Will hyperinflation ever happen in the U.S.?

Prechter: It certainly might. But it could only happen after the bond market implodes, not before. Then, if politicians get hold of a press, they might decide to print. But this is political conjecture, not monetary analysis. First we have to cross the deflationary valley, and this could take longer than almost anyone thinks.

Crux: So what you're saying is that inflation is possible, but that it can't happen until deflation has run its course. What would you be looking for to indicate that deflation was over and that inflation was beginning to become a danger?

Prechter: A banking crisis, in which thousands of banks shut their doors. Thirty-three percent unemployment. A ruined private and municipal bond market. And a panic in government bonds. If all those things happened, then you would have to be on the lookout for legislation allowing the government to take over the printing of money or to force the Fed to monetize new federal debt at a rapid rate. I think we will have to see all these things before hyperinflation will become possible. If all of this happens, trade all your greenbacks immediately for gold and raw land.

Crux: Are there any scenarios that would change your mind, that would make you think you may be wrong and that inflation is becoming a threat?

Prechter: If the S&P index, real estate and the CRB commodity index all take out their price highs of 2006-2008, it would probably be enough to indicate runaway inflation. We keep a very close eye on all the key markets and will try to be ahead of any such development.

Crux: What do you think about buying gold as a crisis hedge? You're often pegged in the media as anti-gold.

Prechter: I love gold. It's money. Our fiat system has no money, just debt. Outlawing gold as money in the U.S. was one of the most harmful decisions the government ever made. Our economy would thrive if contracts denoted payment in gold instead of paper.

That being said, there has been no worse investment than silver over the past 30 years, and gold has not done much better. You have to pick your markets and your spots. In 2001, 95% of futures traders polled for the Daily Sentiment Index thought gold was going lower. That was a bottom. Now 98% of them think it's going higher. This is probably not a bottom.

Also—and I know this will sound controversial—gold is not a crisis hedge. It goes up most when the economy is expanding, not contracting.

In crises, people want *cash*. Debtors owe dollars, and creditors are owed dollars. That's what they'll need, and that's what they'll want back. During the serious part of the coming debt implosion, dollar bills and surviving dollar-denominated IOUs will likely go up in value faster than gold, which means the dollar price of gold will probably fall for a time.

But I also believe—maybe it's more of a hope—that the days of fiat money are numbered. The only solution to our monetary problems is to get government out of the money business. Like every other business in which government becomes involved, this one has become polluted beyond recognition.

I also think it's wrong to advocate a government gold standard. Governments always eventually ignore such standards. An English pound used to be worth a pound of silver. What's it worth now?

Private institutions should provide money. Companies such as GoldMoney are already doing it. That's the model for the future.

Crux: So if deflation is coming, how do you recommend investors prepare for it?

Prechter: Investors should be primarily in greenback cash and Treasury bills, while holding a core position in gold-bullion coins and bags of U.S. silver coins, sometimes called "junk silver."

They should hold no corporate bonds, municipal bonds, mortgage debt, auto debt, credit card debt, foreign debt—aside from Swiss money-market claims (the Swiss equivalent of T-bills)—or any other IOUs that will soon evaporate in value. They should own no stocks or investment property. They should avoid all but the safest banks on the planet. Experienced traders should be short the S&P.

Anyone who wants detailed instructions on how to do all this should read the second half of *Conquer the Crash*, which is a manual on how to take advantage of a deflationary environment.

Crux: That's quite a list. Any closing comments?

Prechter: I realize my forecast for deflation differs from most bears' views, and calling for depression certainly differs from the bulls' views. But I'm convinced that deflation and depression are already underway and about to get much, much worse. You can avoid the impact of both trends if you are prepared, and you can even profit from these trends if you are properly positioned.

To close, I want to say that I really appreciate your open-mindedness in posting my thoughts. Thanks for the forum!

Crux: You're welcome. Thanks for talking with us.

Prechter: My pleasure.

Editor's Note: To stay up to date on Prechter's most recent thoughts and investment recommendations, you can check out a subscription to Elliott Wave International's flagship advisory, the *Financial Forecast Service*. As you've seen in our interview, Bob Prechter doesn't mind taking the contrarian's view on the world. You can learn more here: http://www.elliottwave.com/wave/flagship-service.

Charts

Here are additional charts relating to the comments above:

- Figure 4 shows that the CRB index of commodity prices fell 58% in just seven months in 2008-2009, rose anemically over 11 months to retrace 34% of that drop and is now back in a downtrend.
- Figure 5 shows the M3 version of the "money supply." The Fed discontinued reporting this statistic, but ShadowStats keeps it updated. M3's rate of change has been falling since 2008. A few months ago, about the time commodities turned back down, M3 itself began contracting.
- Figure 6 shows the month-over-month rate of change for the Consumer Price Index, which is hovering around zero. This is a lagging indicator of monetary trends. It shows that consumer prices are no longer rising, despite the recovery and two years of the Fed's boldest inflation efforts ever.

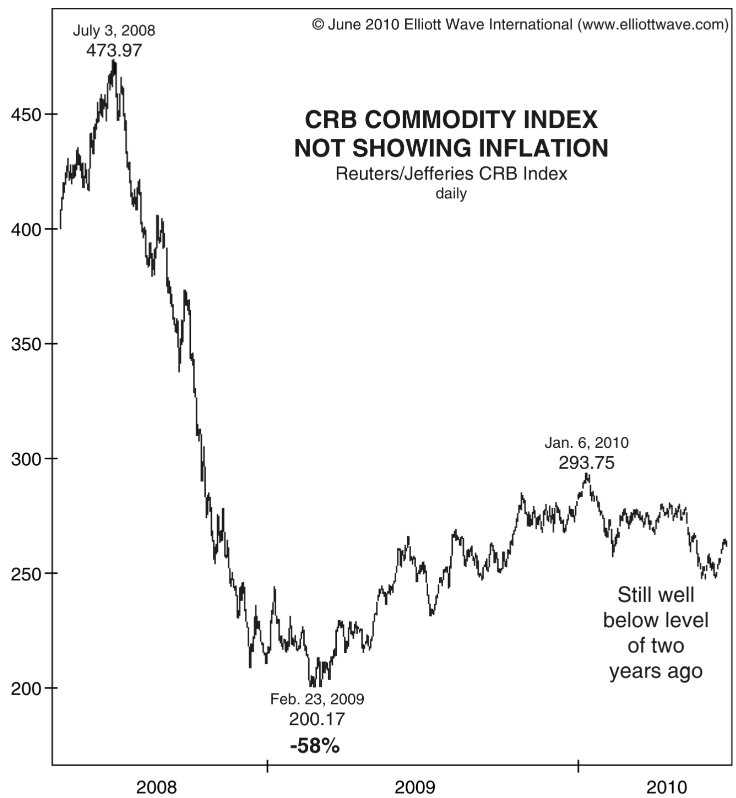

Figure 4

None of these charts indicates runaway inflation. The evidence overall still indicates that deflationary forces, slowly but surely, are overcoming inflationary ones.

This brings me to a point about currency price relationships. The dollar and the euro have been soaring and plummeting against each other for the past three years. Each time, investors make a case as to why one currency is doomed and the other is a haven. But these conclusions are misleading. As deflation overwhelms the world's monetary system, currencies will fluctuate wildly, but a few years from now their price relationships might not be all that different from where they started. All currencies are deflating; they're just doing so in piston fashion, as investors rush from one to the other.

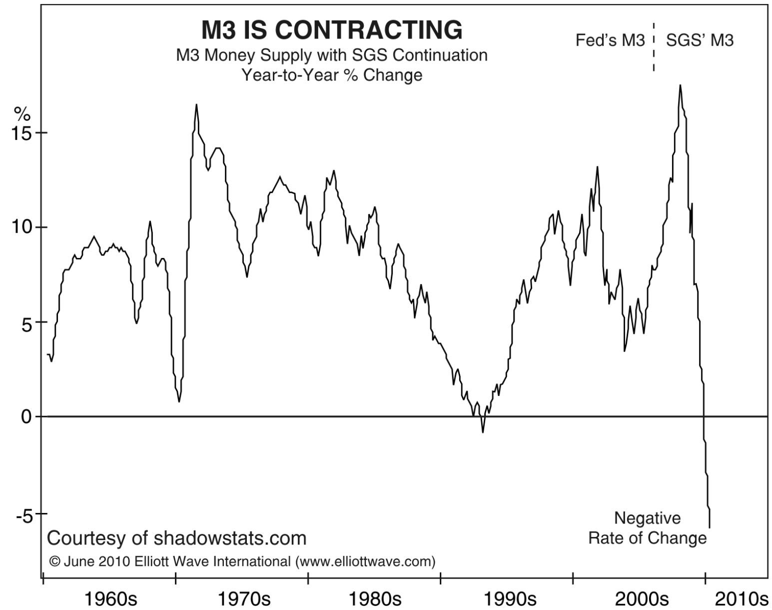

Figure 5

EWT has long argued that the dollar would rise the most because more debt is denominated in dollars than in any other currency, so dollar credit has the greatest potential to contract. The pattern of five waves up in the dollar, being long term bullish (see Figure 2), is compatible with this view. Fundamentally, the euro has always struck me as the worst long term bet on the board, as I doubt that a federation of sovereign states—especially socialist ones—can manage a currency. The fact that European countries have battled each other off and on for 1000 years doesn't help the outlook, either, because the downtrend in social mood could bring them to blows again. If you are going to play the moves up and down in the dollar, I would suggest the Swiss franc, not the euro, as the safest currency to use when switching out of the dollar.

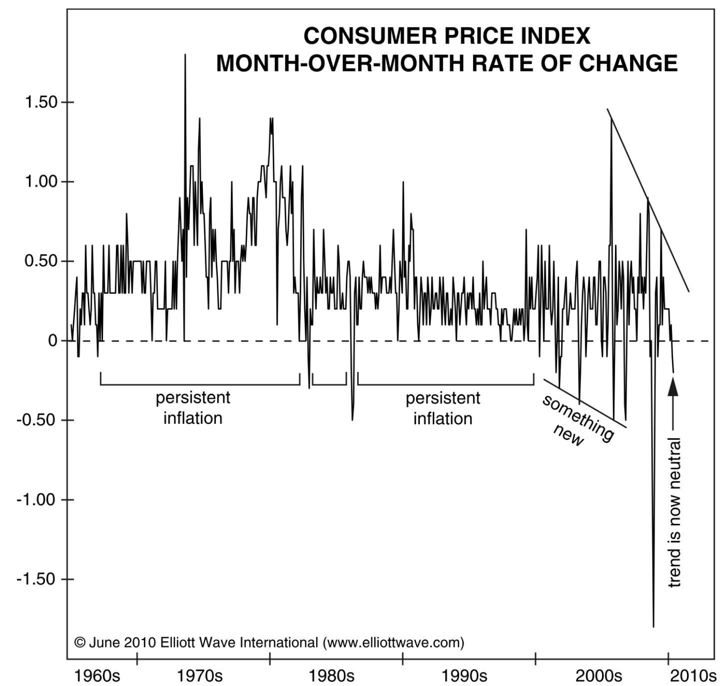

Figure 6

<u>Recent correspondence to EWI has served up additional questions about deflation</u>:

Q: Some people believe that a process of de-leveraging is happening, but they do not believe in the deflation theme.

A: It's the same theme. The "money supply" is virtually all credit. De-leveraging reduces the total volume of credit, which is deflation.

Q: A key point is the policy of Quantitative Easing (QE), whereby central banks trade new money—created out of thin air—for old debt. It seems that monetary easing will lead to moderately rising financial asset prices due to QE inflation and a resulting weak dollar.

A: If that were true, then Japan would be awash in inflation. All QE has done there is to add miserable uncertainty and water-torture slowness to the deflationary process. Despite massive intervention over two long decades, its stock market is down 75% and its real estate prices are down 50%. The same thing is starting to happen here. David Rosenberg of Gluskin Sheff is one of the few deflationists around. On May 11, after the post-flash-crash bounce, he said, "It's a sad deflationary reality when a trillion dollars can only buy you 400 points on the Dow. What can the politicos do for an encore?" We know the answer: borrow and lend, borrow and spend, faster and faster. But when credit, not money, is the medium, these reckless policies cannot fail to result in a deflationary crash. It will be interesting to see what the Fed's governors do when some issuers of the debt it owns stop paying interest and threaten to default on principal. I doubt they will take it lightly. And I don't think they will take on even riskier stuff.

Q: Don't you think that without QE and massive government spending there would be a much rougher, more deflationary outcome?

A: This type of argument has two sides. One could argue that central bank and government policies will lead to greater debt-related panic later than what might have happened otherwise. If creditors lose confidence in German and American sovereign debt, look out.

Q: It seems that the question isn't whether it'll work; it's whether the political winds will shift to prevent the Fed from pursuing an adequate QE policy.

A: If the political winds shift to prevent further QE, then the policy won't have worked. I argued in my book that the trend toward negative social mood will ultimately stymie the Fed and the government's ability to generate more credit. The new trend is already manifesting. The Fed has QE'ed only $1.4t., and already people are up in arms about it.

Q: What's wrong with QE?

A: What's right with it? QE shifts the burden of IOU failure from wildly speculating creditors onto innocent people.

Q: I mean, why will QE prove ineffective?

A: QE already seems to be ineffective, wouldn't you say? Bank credit is contracting. Commodity indexes are 50% below where they were in 2008, *before* the record QE. And the dollar is nearly back to where it was in early 2009. None of the believers in omnipotent monetary authorities and their pledges to inflate saw any of *those* changes coming. Meanwhile, we couldn't see how it could turn out any other way. The largest inverted debt pyramid in the history of the world is the reason that QE won't work. The future is already fully mortgaged.

Q: Recently credit spreads have been widening. I suppose that is a sign that something isn't working.

A: For sure! Creditors are sobering up. They are beginning to be concerned that central banks won't buy up every IOU on the planet, so they are trying to figure out which ones to jettison. That's why prices for credit default swaps are edging up, too.

Q: But the Fed could buy a lot more.

A: Yes, it could. Today's buying consortium of the Fed and the government is gargantuan, as both entities have the privilege of stealing from producers and savers. But I think it's just a bigger version of the bank consortium of 1929, which promised to keep stock prices up but failed. Buying into a bear market that's bigger than you are is suicidal. I think this consortium will fail, too. A Grand Supercycle bear market is going to be stronger than the government and the Fed combined.

Q: But the whole inflation case seems so logical.

A: Exogenous-cause logic always seems compelling. But the true underlying cause of financial and macroeconomic trends is waves of social mood. When inflation returns, it will be because people regain their optimism and start borrowing and lending again, not because someone in power pulled the right lever.

Recommendations

New book: A brand new book is out: *Mood Matters—From Rising Skirt Lengths to the Collapse of World Powers*. Well known science author John L. Casti has done the world a great service in bringing the ideas of socionomics and other futurist approaches to the general reader. Casti was one of the first widely published intellectuals to discern the value of socionomics, and I am indebted to him for covering the topic in an article for the August 31, 2002 issue of *New Scientist*. Now Casti has broadened his coverage and insights for this new book. Formerly of the Santa Fe Institute and now Senior Research Scholar at the International Institute for Applied Systems Analysis in Vienna, John Casti has produced many highly readable books and articles in his long career. You will want this book in your library. To order, go straight to this page: http;//www.socionomics.net/mood-matters-john-casti/.

Gold book: For those of you who are interested in learning how to buy and sell physical gold, a handsome new book provides a lot of useful information. Bob Harwell, head of one of the gold firms listed in *Conquer the Crash*, has agreed to make a copy available to EWT subscribers for just $10, which is below his cost. Contact Hancock & Harwell Precious Metals, Atlanta, GA 877-217-1776 or email bob@raregold.com.

iPhone application: CNBC has a nice iPhone app called "CNBC Real Time" that gives current quotes on indexes through the day and even on key futures markets at night. It's very handy when you're out and about.

Fractal analysis: After watching Henry (Hank) Wernicki for a year or so, I think he is onto something. Wernicki visually scans past short term patterns in the S&P for ones that look like "now," and on that basis he attempts to forecast the market's next move, usually a few hours or days ahead. When the market stops copying itself, his opinion is stopped out and he moves on to another picture. Hank makes bold calls, so if you are a day trader, you might want to check out his work. You can find him at www.elliottfractals.com.

Annual outlook: In 2008, John Harris developed an annual stock market forecasting system called the Wall Street Traffic Light, which uses historical data to classify each year using profiles of market performance. I mention it because his method gave a sell signal at the close on January 29, 2010. This signal is not intended for short-term timing; his goal is to forecast a gain or loss for the year, for investors with IRAs and 401ks. On his website (www.thewallstreettrafficlight.com), he sells a book that explains his method.

Clued-in website: Todd Harrison and Kevin Depew "get" socionomics. As a result, you can find exceptionally intelligent commentary on their Minyanville website. Last January, Kevin did a great job countering the conspiracy theory that the Fed was buying futures contracts to make the stock market go up. You can read it here: http://www.elliottwave.com/wave/Minyanville-26253. Besides his key points, I find it difficult to imagine that the Fed's staff is busy trading futures, that it has figured out how to *sell* the futures it buys without making prices *go back down* (this magic is never explained), and that it works all of this market manipulation through banks and brokers without anyone spilling the beans. And was the Fed also buying all the other stock markets in the world that went up? What about the ones without futures? If the Fed were in control, why did the markets here and abroad just go *down* for two months? Todd recently ran a prescient article on the fall from grace of certain American icons and how it related to the "chasm of discord" developing in society. Read it here: http://www.elliottwave.com/wave/Minyanville-28366. Among all the major media in the world, Minyanville is unique in taking golden opportunities to apply the socionomic insight to news and opinion in real time.

More socionomists: A number of other cultural observers are applying socionomics. Among our favorites are the following:

Michael Flagg: http://futurejacked.blogspot.com/
Dave Mattia: http://www.roottrend.com
Prof. Dennis Elam: http://professorelam.typepad.com/
Matt Stiles: http://futronomics.blogspot.com/
Luo Zhen: http://investinginchinesestocks.blogspot.com/search/label/Socionomics

Want To Hear What I Was Doing in 1974?

In 2008, 34 years after my band made an LP, I started getting calls from collectors wanting copies. To make a long story short, a collectors' label called Yoga Records has decided to release the album on CD and digital download. I think they're pricing it too low, but that's deflation for ya. Go here for reviews, downloading, free listens, the CD and even the LP. http://yogarecords.com/artists/news/.

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