

# WHAT IN THE WORLD IS HAPPENING TO EDUCATION?



March 2012

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# The Education Industry Is Traversing a Broad, Multi-Decade Social Mood Peak

By Alan Hall

Our February 2011 education study forecast “a massive shift in society’s attitudes toward education.” Our study said this shift would reverse a century-long, upward trend in the popularity and cost of higher education (click [here](#) to read it).

The bursting of such an enormous bubble takes years to accomplish. Nonetheless, significant change is already under way. In this update, we report on the status of seven developments in the education industry. Five are on track with our forecasts, one is evolving, and we have to admit that the emergence of the last one surprised even us.

## 1. The “Creative Destruction” of the Industry Has Begun

### *What We Said*

Traditional educational institutions may eventually lose control of the manufacture and distribution of education much as the music and publishing industries lost their grip on music and text. Bear markets topple dominant players and open the field to nimbler entrepreneurs, who will develop alternatives to institutional education.<sup>1</sup>

### *What Has Happened Since*

Seven months later, in an October 2011 article titled “The University of Wherever,” The New York Times practically quoted our study:

Two recent events at Stanford University suggest that the day is growing nearer when quality higher education confronts the technological disruptions that have already upended the music and book industries....<sup>2</sup>

As Pete Kendall reported in the October 1995 issue of *The Elliott Wave Theorist*, intense technological advancement is common to advances leading to major peaks in the economy. Such breakthroughs tend to lower the costs of production and consumption of certain goods and services and enable entrepreneurs to capture business from old, less nimble providers. Entire industries must adapt to survive; otherwise, they die. Economist Joseph Schumpeter called this process “creative destruction.”

Today’s technological breakthrough is the Internet, of course, which the July 1998 *Theorist* called

“a massive engine for falling prices in countless businesses and professions.” Education is no exception. On March 4, 2012, The New York Times took note of the trend:

Welcome to the brave new world of Massive Open Online Courses — known as MOOCs — a tool for democratizing higher education. ... in the past few months hundreds of thousands of motivated students around the world who lack access to elite universities have been embracing them ... without paying tuition or collecting a college degree. And in what some see as a threat to traditional institutions, several of these courses now come with an informal credential....<sup>3</sup>

For example, Stanford professor Sebastian Thrun offers remote students the same lectures, assignments

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***We can probably get the same quality of education I teach in class for about 1 to 2 percent of the cost. —***

STANFORD PROFESSOR SEBASTIAN THRUN, COMMENTING ON OPEN ONLINE COURSES

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and exams that on-campus students pay \$50,000 a year for. But the online courses are free. Online students get a “statement of accomplishment,” though not Stanford credit, for passing the classes. “If we can solve [quality-control problems such as cheating and accreditation], I think it will disrupt all of higher education,” Thrun says.

Bill Keller of The New York Times agrees: “Disrupt is right ... [Free, online education] would be an earthquake for the majority of colleges that depend

on tuition income ... Many could go the way of local newspapers.”<sup>2</sup>

Thrun goes on to say,

I’m not at all against the on-campus experience ... I love it. ... But it’s also insanely uneconomical. ... Literally, we can probably get the same quality of education I teach in class for about 1 to 2 percent of the cost.<sup>2</sup>

In December 2011, the Massachusetts Institute of Technology expanded its free, online M.I.T.x OpenCourseWare program to include nearly 2100 online courses. The university says more than 100 million people have used the program. Like Stanford, MIT also offers credentials for those who complete courses.<sup>4</sup>

Diploma-granting institutions are skeptical. Stanford’s provost said,

There are issues to consider, from copyright questions to what it might mean for our accreditation if we provide some official credential for these courses, branded as Stanford.

Thrun’s answer to the accreditation problem is to completely bypass the old system via a new business model. The idea is that online education can produce detailed data on precisely what the courses teach,

2011 study a list of 100 online educational resources. Among those are the thousands of concise lessons in math, biology, chemistry and physics aimed at younger students and given away by Salman Khan, a Harvard MBA, at [khanacademy.org](http://khanacademy.org). Khan now rides a growing wave of popular acclaim and has secured backing from Google, Bill Gates and others. Khan says his goal is to “change education worldwide.” Here are a few highlights from Khan’s March 11 CBS 60 Minutes interview<sup>5</sup>:

Khan Academy has created a dashboard so teachers like Courtney Cadwell can monitor each student’s progress ... I can see who’s rushing ahead, who’s lagging behind. I can see if they begin to stagnate. ... you can see the number of seconds they spent on each problem. ...<sup>6</sup>

Khan promises he’ll never put a price tag on his instruction.

The new “free-ed” model could soon bring top-quality education to many students, including third-world scholars who otherwise would have no such access. Many of those students, in turn, could become great online teachers.

In the meantime, the progress of education’s creative destruction will ebb and flow with social mood.

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which aspects of the classes the students master, how long they take to complete the courses and so on. This dataset can be far more useful to employers than just grade point average and a diploma from an elite school. Thrun’s new company, Udacity, plans to monetize the model by selling pinpoint leads to job recruiters:

If a recruiter is looking for the hundred best people in some geographic area ... that’s something we could provide, for a fee. I think it’s the cusp of a revolution.<sup>3</sup>

Richard DeMillo, director of the Center for 21st Century Universities at the Georgia Institute of Technology, said, “If I were still in industry and someone came in with an M.I.T.x credential, I’d take it.”<sup>4</sup>

Thrun’s and MIT’s efforts are part of a trend that now extends even to grade schools. We included in our

## 2. Education’s Image is Shifting

### *What We Said*

“Society’s feelings about education shift in concert with social mood,” we wrote. We presented evidence that the public becomes critical of colleges and universities during negative trends in the social mood.

### *What Has Happened Since*

Six months later, USA Today reported the results of a new study by the educators’ association Phi Delta Kappa International:

Since 2001, Americans have soured on schools in general: When 1,002 adults were asked June 4-13 to give a letter grade to “public schools in the nation as a whole,” only 17 percent gave them an A or B, down from 23 percent in 2001 and 27 percent in 1985.<sup>7</sup>

Teachers feel increasingly unfulfilled as well. The president of the American Federation of Teachers said that budget cuts and so-called “teacher bashing” by politicians and media have ravaged morale.<sup>8</sup> The annual MetLife Survey of the American Teacher said, “29 percent of teachers say they are likely to leave

the teaching profession within the next five years—up from 17 percent in 2009.” The report also said, “43 percent of teachers are pessimistic that the level of student achievement will increase in the next five years.”<sup>8</sup>

Similarly, a special-education teacher’s recent op-ed in The New York Times, “Confessions of a

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***Another example of society’s shifting attitude toward education is the increasing suspicion that institutions of higher learning pander to the rich.***

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‘Bad’ Teacher,” explained that the current teacher-evaluation push has produced an environment of pressure, humiliation, criticism and constant scrutiny: “Teaching was a high-pressure job long before No Child Left Behind, [the 2001 federal program for standards-based, assessment-based education reform] ... the more intense the pressure gets, the worse we teach.”<sup>9</sup> All in all, according to the MetLife survey, “Teacher job satisfaction is at the lowest it’s been in more than two decades.”<sup>10</sup>

Another example of society’s shifting attitude toward education is the increasing suspicion that institutions of higher learning pander to the rich. For example, in 1993 as the DJIA pushed to new 10-year highs, the state of Georgia launched its acclaimed and widely emulated HOPE Scholarship Program, which offered Georgia high school students four years of free college tuition provided they maintain a B average.<sup>11</sup> In 1995, as the Dow surged another 35+ percent, Georgia abolished HOPE’s income-eligibility cap,<sup>12</sup> granting free tuition to even the state’s wealthiest families. Critics noted that parking lots at the state’s flagship school, The University of Georgia, filled with fancy new cars—dubbed “Hopemobiles” by students—that parents bought for their kids with money freed up by the HOPE windfall.<sup>11</sup> Today the manic mood is gone. Some now accuse the same program—once held up as the states’ standard in granting college access equally to all citizens—of fostering social *inequality*.

The recrimination is spreading beyond HOPE to higher education itself. Much of it is coming from *within* education. In his March 12 op-ed in The New York Times, journalist and Columbia University professor Thomas B. Edsall wrote, “Instead of serving as a springboard to social mobility as it did for the first decades after World War II, college education

today is reinforcing class stratification.” Edsall cites a November 2011 report by The Education Trust, which shows that in the past fifteen years, public and private colleges have sharply boosted their “investment in education of students from the top income quintile,” but only modestly for the lowest income quintile.<sup>13</sup> He also cites a new book, “How

Increasing College Access Is Increasing Inequality, and What to Do about It.”

The book warns, “The education system is an increasingly powerful mechanism for the intergenerational reproduction of privilege.”<sup>14</sup> Sean Reardon, professor of education and sociology at Stanford, said,

“The children of the rich increasingly do

better in school, relative to the children of the poor ... . This means that social mobility has gotten rarer [and] the ‘American Dream’ is increasingly difficult to attain.”<sup>14</sup> Pundits have always complained about the achievement gap, but they seem to be growing more pointed and strident.

Even presidential candidates express the new hostility toward higher education. In late February, Republican candidate Rick Santorum said, “President Obama once said he wants everybody in America to go to college. What a snob.”<sup>15</sup> In another speech, Santorum said, “The indoctrination that is going on at the university level is a harm to our country.”<sup>16</sup> In March, Mitt Romney told a student to choose a cheaper

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school and “don’t expect the government to forgive the debt that you take on.”<sup>17</sup>

If the large-degree negative social mood trend continues as EWI expects, society will increasingly see university spending as wasteful and the system itself as anti-democratic.

### **3. Academic Performance Is Slipping**

#### *What We Said*

We wrote, “social mood determines educational, business and asset price performance.”

#### *What Has Happened Since*

In September 2011, The College Board reported, Scores on the critical reading portion of the SAT



college entrance exam fell three points to their lowest level on record last year, and combined reading and math scores reached their lowest point since 1995.<sup>18</sup>

In December 2011, The Center on Education Policy, an independent advocate for public education,



**Feeling Betrayed:** One of a number of handwritten signs posted on Tumblr (a micro-blog) called We Are The 99 Percent.

issued a report showing that half of U.S. schools failed federal standards for student performance.<sup>19</sup> For more analysis on declining student performance, see sidebar at right.

#### 4. Student Debt Continues Its March

##### *What We Said*

We wrote, “The U.S. government continues to encourage people to borrow for an education. ... This is exactly what it did with housing, to a disastrous end.”

##### *What Has Happened Since*

The issue of student debt has burst into the nation’s conscience. In October 2011, Ezra Klein of the Washington Post reviewed a number of stories told by the Occupy Wall Street protesters:

College debt shows up in a lot in these stories, actually. It’s more insistently present than housing debt, or even unemployment ... college debt represents a special sort of betrayal. We told you that the way to get ahead in America was to get educated. You did it. And now you find yourself ... buried under debt. You were lied to.<sup>21</sup>

In that same month, USA Today reported that student loans outstanding would exceed \$1 trillion in 2011.<sup>22</sup> In March 2012, The Wall Street Journal also reported on the surging student debt:

Nonrevolving credit—which includes student loans—was up \$20.72 billion, to \$1.711 trillion, the biggest dollar increase since November 2001. Federal student credit outstanding ... is up more than four-fold from 2008—a sign high joblessness in the U.S. has prompted many people to go back to school.<sup>23</sup>

In June 2010, the total amount of U.S. education loans surpassed total U.S. credit card debt for the first time. To put this in perspective: 80 percent of Americans hold credit cards, yet only 15 percent hold the entirety of the student debt. The Federal Reserve Bank of New York (FRBNY) released a report on March 5 showing student loan debt now surpasses total U.S. auto loans, and student loans now have twice the delinquency rate of U.S. credit card debt. Further, nearly 30 percent of the 37 million student borrowers are at least 30 days past due on payments. About 70 percent of the student-loan debtors are over the age of 30, and seventeen percent are older than 50. The large-degree social mood peak has indebted even middle-aged people. The FRBNY concluded:

In sum, student loan debt is not just a concern for the young. Parents and the federal government shoulder a substantial part of the postsecondary education bill.<sup>24</sup>

*Please turn to Page 5*

#### **U.S. Academic Performance in Wave III Versus Wave V Appears to Mirror the Nation’s Financial and Economic Performance**

Lawrence C. Stedman of Binghamton University suggests that some measures of academic achievement never fully recovered from their Cycle-wave, bear-market-1970s declines (for details, see our February 2011 study). In fact, Stedman’s figures show that in Cycle wave V (1974-2000), student achievement overall was weak relative to Cycle wave III (1942-1966). According to Stedman, “High school students’ NAEP civics scores, for example, dropped substantially between 1969 and 1976 and have been slipping ever since. Their science scores also fell during the 1970s and have only partly rebounded.”<sup>20</sup>

This parallels the relative economic performance of waves V and III as shown in Chapter 1 of *Conquer the Crash*. It is also reminiscent of Prechter’s market observation in *Elliott Wave Principle*, “fifth waves in stocks are always less dynamic than third waves in terms of breadth.”

In a telling anecdote about just how much debt some students take on, Federal Reserve Chairman Ben Bernanke revealed in his semiannual testimony to Congress that his son, “who is in medical school

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in New York, is likely to rack up \$400,000 of student loan debt in the process of getting his degree.”<sup>25</sup>

## **5. The Era of the Academic Scandal, Once Unthinkable, Is Upon Us**

*What We Said*

In February 2011 we wrote, “we may see academic versions of the Madoff scandal.”

*What Has Happened Since*

Just five months later, the Christian Science Monitor ran the headline, “America’s biggest teacher and principal cheating scandal unfolds in Atlanta.” The Atlanta cribbing proved to be only “the largest of dozens of major cheating scandals unearthed across the country ... an ongoing problem for U.S. education...”<sup>26</sup>

The cheating is not confined to high-school grades, however. In August 2011, four states and the Department of Justice filed an \$11 billion fraud suit against the Education Management Corporation—the nation’s second-largest for-profit college company—charging that it was ineligible for state and federal financial aid it received from July 2003 through June 2011. “The depth and breadth of the fraud laid out in the complaint are astonishing,” said a former federal prosecutor. The New York Times reported that the lawsuit is one of many filed against the expanding for-profit college industry.<sup>27</sup>

Similarly, in our June 2011 issue, Ted Solley described the emerging backlash against U.S. law schools (click [here](#) to read it). The furor continues to heat up. In October, Congress began inquiries into “‘the confluence of growing enrollments, steadily increasing tuition rates and allegedly sluggish job placement’ at American law schools,” according to

USA Today.<sup>28</sup> In February of this year, two professors from Atlanta’s Emory University published a 77-page paper, “Law Deans in Jail.” They wrote,

[Law] schools, their deans, U.S. News & World Report and its employees may have committed felonies by publishing false information as part of U.S. News’ ranking of law schools. The possible federal felonies include mail and wire fraud, conspiracy, racketeering, and making false statements. ... crimes affecting the lives and careers of thousands of people.<sup>29</sup>

By March 2012, some fifteen law schools faced class action lawsuits over allegedly deceptive employment data.<sup>30</sup>

## **6. Tuition Prices Are Still Going Up—for Now**

*What We Said:*

Our February 2011 issue showed a three-century, rising Elliott wave in tuition prices. The pattern appears to be complete, which means that a major decline is due.

*What Has Happened Since:*

Several universities cut tuition and fees in 2011.<sup>31</sup> But according to USA Today, overall tuition prices *rose* eight percent at public colleges in 2011. At the same time, 41 states cut their spending on public higher education.<sup>32</sup> The result? Students and their families must cough up even more cash. The president of the American Council on Education said, “It has become all too common for state legislatures to dip into the pockets of students and families to balance state budgets.”<sup>33</sup>

All of which means that the higher education tuition bubble remains, for the moment, un-popped.

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On March 12, an Atlanta Journal Constitution article, “College Students Majoring in Debt,” reported, for example, that The University of Georgia’s spending “on deans and vice presidents ... jumped by more than a third” throughout the recession and 2011.

The article says, “The economy may be in a downturn, but the state’s colleges are on an upswing, and students are paying for much of it.”<sup>34</sup> Such complacency on the part of universities is likely

universities will be in for a real crisis in enrollments, and by extension tuition receipts, shortly thereafter. Once that occurs, look for colleges to dramatically cut costs—as a matter of survival.



to persist until social mood shifts to negative at all degrees of trend.

But change *is* in the air. In March 2012, tuition hikes sparked protests in California.<sup>35</sup> And, according to Elliott Wave International, social mood is nearing a large-degree positive extreme within a larger-degree negative trend. Once this peak is passed, we expect that

### 7. Here Is One Development We Did Not See Coming: The College Sugar Daddy

Socionomics can anticipate the tendency of the social system and sometimes nail specific predictions. But it cannot foresee every expression of society’s mood. For example, we never contemplated this possibility: “Sugar daddies: The new way to pay off college loans?” That was the headline on an August 2011 story

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in The Week. The article reported that websites such as “SeekingArrangement.com, SeekingTuition.com, and SugarDaddyMeet.com allow young, mostly female students to post ‘sugar baby’ profiles and hook up with a ‘sugar daddy.’” The founder of SeekingArrangement said he’s seen “a 350 percent jump in verified college-going ‘sugar babies’ since 2007, and he now actively advertises his site as a way to pay off student loans.”<sup>36</sup> The Pulitzer Prize winning newspaper The Oregonian reported on March 12 that the respected 20-year editor of its editorial pages died at age 63 of cardiac arrest following a sex act with a 23-year-old college student. The woman told deputies that he had been giving her money for textbooks and other school expenses in exchange for sex.<sup>37</sup>

If EWI’s outlook for the looming negative mood is correct, the truly radical changes for the educational system still lie ahead. So far, social actions support that outlook.

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## MANIFESTATIONS OF A MIXED MOOD: MARCH 2012

### ► Ups and Downs

Cycle, Supercycle and Grand Supercycle degree waves are in negative trends while Primary and Intermediate waves near a top. In this mixed-mood environment, a poll finds that people are happier even as bank creation reaches zero and legislators of one U.S. state noodle how they might approach secession—under certain circumstances.

#### OPTIMISM

Results from an Ipsos poll of 19,000 adults in 24 countries indicate the world's citizens are happier today than they were in 2007—the last time the poll was taken and just before the financial crisis began.

In the recent poll, 77 percent of respondents described themselves as “happy,” an increase of three points compared to five years ago. Twenty-two percent

Last year, operating revenue for the banking industry was down for only the second time since 1938, pushing banking statistics back to levels not seen since the Great Depression.

#### SECESSION

In the February 2010 issue of *The Socionomist*, Alan Hall noted that social-mood-induced anger, when it exists, has to emerge somewhere. It can manifest in external war, internal secessionism, civil war or all of them. He said the actions spring from the negative-mood impulse to polarize and separate.<sup>3</sup>

Last month, the desire to secede manifested in Wyoming, where legislators voted on launching a study into what their state should do if there were a complete economic or political collapse in the United States.

House Bill 85, if it had passed, would have created a state-run task force to consider starting an alternative Wyoming currency, initiating a state military draft, raising a standing army and acquiring strike aircraft and an aircraft carrier (look it up if you don't believe us).<sup>4</sup> In a February 28 vote, the Wyoming House defeated the bill, but the vote was close: 30-27.

During the past year, there have been other manifestations of the desire to secede. Political

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***The Federal Deposit Insurance Corporation reported only three new banking charters—all reconstitutions of failed banks—for all of 2011, the lowest annual number since the FDIC began keeping records in 1934.***

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said they were “very happy,” an increase of two points during the same period. This fits socionomic theory, since stocks have risen for three years.

#### BANKING

Last year was the first since at least 1984 that no *de novo* banks were created in the U.S., according to analysis by the Financial Times. *De novo* banks are freshly chartered institutions that are not the result of a takeover by another bank.

In addition, the Federal Deposit Insurance Corporation reported only three new banking charters—all reconstitutions of failed banks—for all of 2011, the lowest annual number since the FDIC began keeping records in 1934.<sup>1</sup>

“The banking system began deflating in 2006,” Robert Prechter wrote in the October 2011 issue of *The Elliott Wave Theorist*. “All inflationary activity since then has come from two authoritarian institutions: the Fed and the government.”<sup>2</sup>

According to the Financial Times, the number of *de novo* banks has been trending down for a few years.

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***Political liberals in southern Arizona launched a petition drive seeking support for a proposal to divide their state in two. They have until July 5 of this year to collect the 48,000 signatures needed to add their proposal to the November ballot.***

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liberals in southern Arizona launched a petition drive seeking support for a proposal to divide their state in two. They have until July 5 of this year to collect the 48,000 signatures needed to add their proposal to the



November ballot. The split-off area would comprise all of Arizona's Pima County; for now, the proposed 51<sup>st</sup> state is called "Baja Arizona."<sup>5</sup>

Also last year, Jeff Stone, supervisor of Riverside County, proposed that his county and 12 others secede from California.<sup>6</sup> And the impulse to break away is not isolated to the U.S.: In Scotland, First Minister Alex Salmond announced plans to hold a referendum in fall 2014 on leaving the United Kingdom.<sup>7</sup>

In the August 2001 issue of *The Elliott Wave Theorist*, Robert Prechter predicted that as negative social mood increases, states will increasingly desire to secede and countries will break up.<sup>8</sup> In his February 2010 article on secessionism, Hall forecast that secessionist sentiment would grow steadily in the near term before becoming a major force when Grand Supercycle wave (IV) enters its second major sub-decline.

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## Black Wedding Gowns: Not Just for Goths Anymore

By Andrea Dibben

The white wedding dress—and its connotation of purity—is a big part of the fairy tale that most brides yearn for on their wedding day. So what prompted the world's top wedding gown designer to color half her latest collection *black*?

"I did take it to a witchy kind of place," Vera Wang told *The New York Times*. "For me, it helped build a sense of mystery that I was hungry for. And it added this sensuality and sexuality, and a little bit of severity, too."<sup>1</sup>

The spring 2012 season, for which Wang's noir line was designed, is almost upon us. We will have to wait a few months to learn just how popular the midnight theme has become. But given the ongoing stock market rally at Primary degree, it will surprise us if these gowns have flown off the shelves—yet.

This is not the first time bridal fashions have featured the color black. Shortly after the October 1987 stock market crash, *The New York Times* reported on bridesmaids suddenly wearing black.<sup>2</sup> The Times' explained that "brides [are] marrying older," and therefore have older bridesmaids, and older bridesmaids befit black dresses.

But socionomists saw that timing—and this one—as more than coincidental. In *The Wave Principle of Human Social Behavior*, Robert Prechter noted that "anti-fashion fashions" such as black wedding dresses tend to become more popular during negative mood trends.<sup>3</sup>

Watch for noir nuptial gowns to become even more tempting if social mood resumes its downward trend. And near the bottom, look



Not Your Grandmother's Wedding Dress: Vera Wang takes bridal wear to a "witchy kind of place."

for other deviations from long-held wedding traditions.

Androgynous wear, anyone?

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# In Search of Signals:

## A Professor Incorporates Social Mood Into Model for Forecasting Big Events

By Chuck Thompson

Despite warning systems, firewalls, contingency plans and safety nets, unforeseen events still rock our world—and our personal lives. We could all benefit from a little more insight regarding the future, but is such a thing possible? Dr. Cari Bourette, who teaches university courses in sustainability and is director of global risk assessment for A New Story Foundation, believes it is.

For years, Elliott Wave International has posited that endogenously regulated social mood determines the character of social events. Dr. Bourette and her team of researchers are using oscillations in social mood in their attempt to forecast socioeconomic, geopolitical and natural events around the world.

### Dr. Bourette's Approach

Dr. Bourette's goal is to use science to quantify and reintroduce our recognition of natural signals into modern life. She discovered the work of Robert Prechter in 2006. "When we learned from Prechter's work that there is a clear relationship between social mood and the markets," she says, "it seemed to us that if we could model the future market movement from our projected social mood factors, we might be able to use it also to forecast potential impacts to socioeconomic and geopolitical stability."

In September 2008, Dr. Bourette and her team saw signs of potential impact to socioeconomic stability around the world and predicted "The Great Market Crash of 2008" would be "unlike any stock market decline in recent history." In November 2011, she and her team saw signs of geopolitical instability coming to the Persian Gulf region. The following month, Iran captured a U.S. drone and began 10 days of military naval exercises.

### Forecasting the Markets

Dr. Bourette and her team also have attempted to forecast ongoing changes in the stock market using a "Market Mood Model" to ascertain four oscillating mood factors. Between July 2007 and June 2010, the model generated daily signals.

Between September 1 and October 27, 2011, the team added to their model information derived

from daily most-popular Internet searches. The study assessed the top five searches occurring each morning at 9 am Eastern Time, before Wall Street's opening bell. Dr. Bourette and her team scored those searches using a research tool that she calls the "Compass System." She notes that the team did not score the words themselves in the top searches, as is the case with many other systems that attempt to gauge mood.

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Instead, they performed a qualitative assessment of the news stories associated with those searches to ascertain the mood the stories and, by extension, the searches represented.

Dr. Bourette and her team computed a three-day moving average for the scores, which in turn served as the input to the Market Mood Model. They gathered the moving averages for all non-market days (for example, weekends and holidays) and averaged them together with the first trading day's moving average in order to accommodate the cumulative effects, if any, of the weekend's mood configurations on the next trading day. The Model took four normalized scores as inputs. Its output or signal was a scalar that reflected the expected change in the S&P 500 for the day.

"Effectiveness of the model was evaluated by viewing theoretical profit or loss as a 'paper trade,' and by evaluating the correlation between the generated model signal with the daily stock market movement," Dr. Bourette wrote. "For the 'paper trade,' profit or loss was determined by the number of S&P points hypothetically gained or lost by following the model vs. how many points the S&P gained or lost that day."

In her December 27, 2011 paper, "Daily Stock Market Expectations from Oscillating Social Mood Factors," Dr. Bourette reported a "significant relationship between Internet search trends and daily

stock market movement ( $p < 0.032$ ).” She noted that this implies a “relationship between the societal focus of the moment (i.e., social mood) and the relative health of the stock market.” During the period of 40 trading days, the model earned a profit of 266.7 S&P points. Sixty percent of trades (24 out of 40) were successful. “This implies that top Internet search trends (via the Market Mood Model) and daily stock

market movement are likely related,” Dr. Bourette wrote.

*Join us at our social mood conference in Atlanta on April 14. We’ve set the price as affordably as possible so that costs will be of little factor. For details, see the box below.*

## 2012 Socionomics Summit is April 14

The Socionomics Institute’s second annual Summit is set for April 14 at Georgia Tech in Atlanta. Last year’s one-day event was so electric that attendees and speakers talked together for hours afterwards. The spirited pace and shifts of focus invigorated everyone who attended. We have put together another eclectic mix of socioeconomic theorists from the Institute and academia as well as cutting-edge applicators of social-mood theory to investing and political forecasting. Our roster and other details are here: [www.SocionomicsSummit.com/NewInitiatives](http://www.SocionomicsSummit.com/NewInitiatives). Once again, we have priced tickets low (just to cover expenses) so that we can make the Summit available to as many people as possible. Seats for the Summit are going quickly, so we encourage you to act now and reserve yours. If socioeconomics intrigues you, you don’t want to miss this event!

*The Socionomist* is designed to help readers understand and anticipate waves of social mood. We also present the latest essays in the field of socioeconomics, the study of social mood; we anticipate that many of the hypotheses will be subjected to scientific testing in future scholarly studies.

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We are always interested in guest submissions. Please email manuscripts and proposals to Chuck Thompson via [institute@socionomics.net](mailto:institute@socionomics.net). Mailing address: P.O. Box 1618, Gainesville, Georgia, 30503, U.S.A. Phone: 770-536-0309.

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Most economists, historians and sociologists presume that events determine society’s mood. But socioeconomics hypothesizes the opposite: that social mood determines the character of social events. The events of history—such as investment booms and busts, political events, macroeconomic trends and even peace and war—are the products of a naturally occurring pattern of social-mood fluctuation. Such events, therefore, are not randomly distributed, as is commonly believed, but are in fact probabilistically predictable. Socionomics also posits that the stock market is the best available meter of a society’s aggregate mood, that news is irrelevant to social mood, and that financial and economic decision-making are fundamentally different in that financial decisions are motivated by the herding impulse while economic choices are guided by supply and demand. For more information about socioeconomic theory, see (1) the text, *The Wave Principle of Human Social Behavior* © 2011, by Robert Prechter; (2) the introductory documentary *History’s Hidden Engine*; (3) the video *Toward a New Science of Social Prediction*, Prechter’s 2004 speech before the London School of Economics in which he presents evidence to support his socioeconomic hypothesis; and (4) the Socionomics Institute’s website, [www.socionomics.net](http://www.socionomics.net). At no time will the Socionomics Institute make specific recommendations about a course of action for any specific person, and at no time may a reader, caller or viewer be justified in inferring that any such advice is intended.



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