Moods and Markets

A New Way to Invest in Good Times and in Bad
Praise for Moods and Markets

“Peter Atwater’s Moods and Markets offers a compelling new framework for evaluating Wall Street and Main Street sentiment and putting it to profitable use as an investor. Behavioral investing is the next frontier, and this book is an invaluable resource for those stock market operators looking to stay one step ahead.”

—Joshua Steiner, Managing Director, Hedgeye Risk Management

“Atwater has written a thought-provoking piece that is a ‘must read’ for investors of all types, institutional or individual, buy-side or sell-side. He challenges conventional thinking on what drives market performance. Atwater’s years of experience in financial services combined with his critical thinking, research, and analysis have produced an insightful thesis that is also fun to read! Whether one ultimately agrees with Atwater or not, every investor will come away with new insights on the markets, an understanding of socionomics, and just maybe a changed approach to one’s investing philosophies.”

—Randy Johanneck, former Chief Risk Officer, J.P. Morgan Private Wealth Management

“Peter’s long and distinguished career in the financial services industry has made him a keen observer of how greed and fear drives markets. This engaging book offers something for everyone: for academics who have long wrestled with why financial markets are more volatile than fundamentals theoretically suggest; for policymakers who still insist that it is impossible to recognize bubbles before they burst; and for investors and risk managers who are always looking for clues as to whether to follow, or step aside from, the crowd. It provides a fresh and more complete answer to how textbook theory suggests markets behave and offers the reader an opportunity to profit from today’s pervasive short-term behavior.”

—Adrian Cronje, Chief Investment Officer and Chair, Investment Strategy Team, Balentine LLC
“It is clear that human psychology plays a major role in the fields of economics, finance, and investments. Until reading *Moods and Markets*, I considered the most fascinating and promising fields of investing to be socioeconomics, behavioral economics, and behavioral finance. But now it may well be socionomics, which takes these concepts to an entirely new and unique level. Atwater writes a lucid, compelling, and engagingly accessible treatise on the topic, supported by many salient historical and real time examples. Most importantly, he illustrates tangible ways to identify social mood dynamics and to both minimize risk and make gains based on them. A must read for every investor and fiduciary.”

—Michael P. Hennessy, Cofounder and Managing Director, Investments, Morgan Creek Capital Management

“I have long been a fan of Peter Atwater since we first worked together over a decade ago and have always found his thinking insightful. Having watched market analysis evolve for more than 30 years, from fundamental to quantitative to behavioral, socionomics is the next frontier. Peter’s research is meticulous, proving that ‘markets measure mood—they don’t make it.’”

—Robert Balentine, Chairman and Chief Executive Officer, Balentine LLC

“As a long term investor in the markets, I found two aspects of *Moods and Markets* that were particularly appealing. The first is that Peter presented his material in a simple format laced with wisdom…sort of like a Buffet annual report. The second is that while I have always understood the need to buy ‘fear’ and sell ‘greed,’ I now better understand that they are emotions, while mood leads to longer term bottoms and tops that lead to longer term opportunities to buy and sell.”

—Bob Smith, Portfolio Manager, T Rowe Price

“Peter’s insights and acumen have provided him a distinguished career and this book is no different. It distinguishes him from the herd. Peter’s insights within *Moods and Markets* give you a great view into the window of investing psychology that few possess.”

—Branden Rife, Head of West Coast Trading, Concept Capital Markets
“Peter Atwater brilliantly provides a framework for understanding both the socioeconomic hubris that led to the great credit bubble of the past decade and the dark social-psychological hangover that has resulted from its collapse. In so doing, he offers an invaluable guide to what promises to be a very difficult and turbulent period ahead as we experience what he calls the ‘me, here, and now’ behavioral tendencies of the post-crash world.”

— Sherle R. Schwenninger, Director, Economic Growth Program, New America Foundation

“Humans know mood affects their behavior. Peter Atwater opens our eyes to the power of social mood to explain economic, social, and political phenomena. The false security of models and math is unmasked. This book resets your worldview.”

— Michael Powell, President and CEO, National Cable & Telecommunications Association, and former Chairman, FCC

“Behavioral finance meets industry practitioner. Atwater gets it because he’s done it. As economic central planning chokes on its academic theories, one of the most credible sources on the business of banking tells you how it all really works, with live ammo.”

— Keith R. McCullough, Chief Executive Officer, Hedgeye Risk Management

“There are four tenets that form the foundation of investing success: fundamental analysis, technical analysis, risk management, and mass psychology/investor sentiment. Mass psychology and investor sentiment are the least understood but increasingly important determinants of market direction, particularly at important inflection points in social mood. Peter’s insightful book articulates new ways of assessing the markets from this lens and is a very useful guide to investors who are looking for an edge to enhance their portfolio returns.”

— Smita Sadana, Founder, Sunrise Capital Management LLC

“Peter Atwater’s take on behavioral economics is both unconventional and incisive. His book provides a masterful illustration of the ways in which our choices are influenced by changes in social moods and how we can profit from the mispricing in the marketplace inevitably caused by our collective irrational actions.”

— David Rosenberg, Chief Economist and Strategist, Gluskin Sheff
“One of the great misunderstandings in the history of financial markets is that The Crash caused The Great Depression, when in reality, The Great Depression caused The Crash. Social mood and risk appetites shape financial assets; it’s a subtle, but extremely critical distinction. This book is a must read for anyone who wants to understand the ‘why’ rather than the ‘what’ as we prepare ourselves with a forward and proactive lens.”

—Todd Harrison, Founder and CEO, Minyanville Media, Inc.

“In Moods and Markets, Peter gives it to us straight between the eyes—we are adrift in a sea of mood. Peter is not out to thrill us with sizzle or pizzazz; he is out to make us money and save us from embarrassment. Peter’s Horizon Preference framework is the best approach I have found yet for isolating the state and direction of social mood for all of my major marketing and investment decisions; I use it all the time. I can see Moods and Markets on the nightstands of big thinkers around the world. With Peter’s help, we can find dry ground.”

—Bernard Del Rey, CEO, Capital Position Ventures, and former Global Head of Marketing, Morgan Stanley Investment Management

“Noble in reason. Infinite in faculty. Investors love to imagine themselves in Hamlet’s lofty terms. But, as Peter maps out in scrupulous and riveting detail, we are all slaves to the human condition. The markets we esteem as logic-driven and untainted by emotion are in fact ruled by it. His book will challenge everything you thought you knew about investing. And you will be better for it.”

—Stephanie Pomboy, President, MacroMavens, LLC

“If you want to understand the ‘why’ behind financial market performance, as well as the ‘what next,’ you will want to read this book. I have observed Peter Atwater at work for 25 years in the financial services industry, and the common element in his many successes is his ability to break down the complex to the simple by not thinking conventionally. He has done this again by adopting and adapting a socionomic framework to help explain market behavior and much more. This book should be read not just by executives, advisors, and investors, but also by anyone curious about the driving forces behind legislative and regulatory activity through market cycles. I have learned over the years that one ignores Peter’s authentic analyses at the peril of joining the ranks of the regretful self-assured.”

—Cam Cowan, Partner, King & Spalding LLP
"Peter Atwater has uncovered the next ‘big-macro’ insight—something so big that it is almost universally ignored to the profound detriment of investors, consumers, governments, and voters. Yet it is hidden in plain sight—it merely took the right seer to fully understand social economics and present it as cogently as Peter has. Moods and Markets is a ‘whole picture’ rendering of economic activity—it adds enormously to the broader study of behavioral economics and will have enormous value to those presently charged with the countercyclical re-regulation of financial and other systemically important elements of our economies. I have observed Peter’s thinking, with regard to the subject he covers in this book, develop over years. I have challenged him and debated his conclusions, having initially been skeptical. I am not only convinced of the correctness of his views, but of the monumental importance thereof to the field of economic analysis.”

—Daniel Alpert, Managing Partner, Westwood Capital LLC, and Fellow, The Century Foundation

“I found Moods and Markets to be a great read. The book exposes a number of little understood truths about the role of people and emotion in areas most ‘experts’ try to explain solely with mathematical equations and raw data. I worked with many professionals who too confidently presumed that ‘the market’ had the answers. Atwater eloquently throws that into doubt. It also caused me to reconsider some strongly held truths and gives me a framework in which to do that. Anyone who wants to make better decisions in their life or work should understand how they are a part of and influenced by their ‘time and place.’ Reading this book will help them do just that.”

—Timothy P. Dunn, CFA, retired global equities fund manager, Capital Research, The American Funds

“The poet John Pomfret wrote of the human cycle of life and learning when in his poem ‘From Reason’ he ends with ‘We live and learn, but not the wiser grow.’ While this is often true, what Atwater has done with this book gives us the chance to break this cycle. With his experience of deep detail from inside the finance industry, Atwater has stepped back and asked the important question of ‘why.’ Blending practical knowledge of the complexities of Wall Street structures with a study of human psychology, this book breaks new ground and offers a better chance of understanding the complex concept of mood—the real ‘why’ behind these markets we chase.”

—Rob Roy, Chief Investment Officer, Cain Brothers Asset Management
“In Moods and Markets, Peter Atwater does a remarkable job of revealing to the reader the unquantifiable dynamics behind the behavior of asset classes. When the seemingly overwhelming amount of economic and financial data available in the internet age fails to adequately explain the movement of markets, the book offers the ‘missing link’ in an easy-to-read analysis of how our emotions affect our investment decisions and how investors migrate between ‘fear’ and ‘greed.’ Moods and Markets creates that ‘aha’ moment which brings a new level of clarity to the seemingly impenetrable web of forces shaping today’s investment landscape.”

—Filippo Zucchi, Managing Member, Zebra Fund LLC

“Moods and Markets should be a must read for investors, regulators, and students of financial crises. It provides an insightful roadmap on how poor decisions get made and how to avoid or minimize making such mistakes.”

—John R. Chrin, Partner, Circle Wealth Management, LLC, and former Global Financial Services Executive-in-Residence, Lehigh University
Moods and Markets
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Moods and Markets

A New Way to Invest in
Good Times and in Bad

Peter Atwater
For Janet
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Acknowledgments

Although my name appears on the cover, this book is hardly the work of one person.

As I describe in my introduction, none of what I have written would have even dawned on me or been possible without Bob Prechter and Minyanville.com.

As I was researching socionomics, Bob and the teams at Elliott Wave International and the Socionomics Institute were extremely helpful both in challenging my thinking and offering ideas and assistance. I am particularly thankful for the support I received from Alan Hall, Chuck Thompson, Ben Hall, and Pete Kendall. And to Dave Allman and Bob, you both went above and beyond.

And the same is true at Minyanville Media. Over the past four years, the team there has provided incredible support to me as a contributor, and I would be remiss if I did not specifically recognize Michael Sedacca, Kevin Depew, Terry Woo, Matt Theal, Justin Rohrich, Bill Meehan, Kevin Wassong, Lisa Caccioppoli, Lila MacLellan, Todd Harrison, and the rest of the team. Further, no recognition of Minyanville would be complete without also thanking the other “professors.” Talk about a great team of contributors. And to Fil Zucchi, Branden Rife, Conor Sen, Tony Frame, John Succo, and Scott Reamer, thank you for both the support and the push back and helping me to remember that when you only have a hammer, not everything is a nail. And to Todd Harrison, thank you, my friend. Beyond being the “Six Degrees of Kevin Bacon” for the second-half of my career, you have made a huge difference in my life.

I’d also like to specifically acknowledge and thank those who generously let me include their charts in this book, particularly
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I am also extremely appreciative to those who took the time to meet with me and to read my ideas while my thinking was less than fully baked, particularly Clyde Haulman, Louise Kale, John Casti, Randy Johanneck, Kathleen Clem, Josh Steiner, Allyson Kaptur, Cam Cowan, Rob Roy, Sherle Schwenninger, Robert Balentine, Adrian Conje, Bob Smith, Paul Muller, Bob Newman, Tom Taylor, Craig Naylor, Don Johnson, Ed Schmidt, and the New America Foundation “roundtable.” Your input was extremely helpful.

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Finally, to family, and friends who are family, who supported me through this book-writing journey, thank you. Mom and Dad, Don and Shirley, Aunt Chris, Aubrey and Todd, Miss Lois, Suzanne, Will, and Christine, you are amazing. To Molly, Ben, and Janet, words can’t begin to express how I feel—I love you to the moon and back, back, back.
About the Author

Called “one of the greats when it comes to financial services” by Herb Greenberg of CNBC, Peter Atwater is the President of Financial Insyghts, a consulting firm to institutional money managers, hedge funds, foundations, and endowments focused on issues facing the financial services industry and how changes in social mood affect the economy and the markets.

Peter has more than 25 years in the financial services industry, including building and leading J.P. Morgan’s asset-backed securities business and serving as Treasurer of Bank One and First USA, CFO of Juniper Financial (now BarclayCard US), COO of Bank One Investment Management, and CEO of Bank One Private Client Services.

Peter is a regular contributor to Minyanville.com, and his original work on social mood and decision making has been featured by Marketwatch, NPR, the Financial Times, and TIME Magazine. His article “Gimme Shelter” on the U.S. housing market was published in the August 2011 The Socionomist.

Peter graduated with honors from William and Mary, where he was elected to Phi Beta Kappa.
In April 2012, I had the pleasure of sharing the podium with Peter Atwater at the second Socionomics Summit, the Socionomics Institute’s annual conference on social-mood theory. That’s when I found out that we had been greatly of like mind since 2009.

Through the fog of general skepticism, individuals often contact our Socionomics Institute with excitement about the moment they finally “get it.” Suddenly they are reading the news differently. They interpret events differently. They understand investment cycles. They understand history. And they no longer feel so lost about the future.

The far rarer individual, however, is one who expands our knowledge. Atwater is a life-long peak performer. After serving as a high-level officer in major corporations, he became the entrepreneur behind Financial Insyghts, an instructor at the University of Delaware, and now a leader in applied socionomics. As the second college instructor to offer a full course incorporating socionomics—an Honors Colloquium titled “Social Mood, Decision Making & Markets”—Atwater is ideally suited to fulfill his latest mission: clarifying the behavior of investment markets and, more broadly, the ups and downs of social experience.

Atwater’s exposition is a passionate, informative gallop through recent social and financial history as viewed through the lens of social-mood theory. He covers aspects of the stock market, the housing market, the education bubble, building booms, mood-driven changes in accounting rules, investors’ “self-assured certainty” or “self-assured uncertainty” at market turning points, and people’s impulse in times of negative mood.
to increase certainty via nonrational actions. In doing so, Atwater helps remedy conventional views regarding the psychology of investing, the motive behind business expansion/contraction, and the role of governments’ actions.

The central idea of Moods and Markets is the Horizon Preference Model. This idea has aged roots. When I first went to work for the Market Analysis Department at Merrill Lynch in 1975, its chief, Robert Farrell, handed me just one short book to read: One-Way Pockets. This insightful investigation into clients’ behavior by pseudonymous stock broker Don Guyon was published nearly a full century ago, in 1917. Wondering why his clients had lost money over a multi-month stock-market cycle even though prices ended up where they had begun, Guyon pulled out all his clients’ buy and sell tickets and came to a startling realization:

The fact that impressed me most forcibly was that the trading methods of each had undergone a pronounced and obviously unintentional change with the progress of the bull market from one stage to another. As later investigation showed this tendency to be general, it may be classed with a number of psychological phenomena that cause a great majority of speculators to do the direct opposite of what they ought to do.... The customer who three months ago had been eager to take a point profit on 100 shares of stock would not take ten points on 1,000 shares of the same stock now that it had doubled in price.¹

In other words, when the bull market was young, Guyon’s clients saw profits as ephemeral, and when the bull market was aged, they envisioned profits extending forever. Atwater has expanded this timeless observation into a broader truism

applicable to all social passions. Socionomics proposes that social mood changes are unconscious. Guyon said that investors’ change of outlook was “obviously unintentional.” Atwater demonstrates that people’s changing time horizons are unconscious, unintentional, and often the counterproductive consequences of changing trends in social mood. He shows that when time horizons change, behavior changes. His key words—“me, here, now” versus “us, everywhere, forever”—provide excellent referents for interpreting social mood.

In 1927, Cambridge economist Arthur Pigou proposed that the macroeconomy fluctuates between extremes due to society’s tendency continually to fall prey to an “error of optimism” followed by an “error of pessimism.” Atwater updates Pigou by characterizing these psychological extremes as “hopeful delusion” and “fearful delusion.” I agree, because people don’t simply make stupid mistakes time and again. They repeatedly delude themselves and each other, because shifts in unconscious mood powerfully impel changes in levels of confidence and even in beliefs.

One of Atwater’s observations is that sometimes the emotional content of media headlines expresses public mood two or three days ahead of stock market changes. This is what Johan Bollen and Huina Mao found in their breakthrough study of emotional states implied in Twitter messages. These are useful observations because we have been of the mind that the stock market expresses social mood changes within minutes or hours; but it may ultimately prove to have a bit longer lag.

Atwater goes his own way in a few areas. I have listed confidence or its lack—which probably derives from unconscious imperatives to increase sustenance and avoid risk—as one of the manifestations of positive social mood, not a synonym for it. But changes in confidence surely belong among the most important
manifestations of social mood and explain many social actions that otherwise present mysteries to historians.

This book contains many nuggets that readers will want to highlight or commit to memory. My favorite chart is the one showing that the author’s alma mater repeatedly engaged in major building projects right at the biggest peaks in the stock market over the past century. No doubt such timing is ubiquitous among universities, just as it is throughout the culture.

As a consultant, Atwater has a practical side from which readers can benefit. Almost anyone can make investment recommendations for a bull market. But Moods and Markets also gives readers a useful list of the types of enterprises that tend to be profitable in bear markets. At the end of the book, Peter brings readers up to date with an analysis of social mood at the current market juncture.

It is a pleasure to see talented writers such as John Casti (Mood Matters), Constantin Malik (Ahead of Change), and now Peter Atwater help extend and popularize the nascent field of socionomics. I hope it’s the start of a long-term trend.

Introduction

“Why,” particularly in the world of investing, is a very lonely place. Most analysts and research firms are so focused on “immediately actionable” buy and sell recommendations and the onslaught of quarterly earnings that they can barely keep up with the “who,” “what,” and “when” of an industry. Few have time for “how,” and even fewer have the energy to figure out “why.”

As I looked around the financial services industry in 2007, very few analysts understood the “how” and “why” of what was about to happen. With nearly 25 years in a career in financial services, I was able to explain the “why” relatively easily. As a pioneer in asset-securitization back in the mid-1980s, I had helped companies such as Capital One, Ford, and Chrysler bundle up loans and other financial assets and sell them as securities to investors around the world. I had also worked with troubled banks, like Maryland National, during the late 1980s and early 1990s recession and saw firsthand the highly charged interplay of unprepared banking executives, regulators, the rating agencies, and investors as the credit quality of overly concentrated and illiquid loan portfolios declined. I had seen how, rather than responding thoughtfully to a crisis, those involved merely reacted to events as they unfolded. I had also been the treasurer of two major financial services firms, First USA and Bank One, so
issues relating to capital, liquidity, and the rating agencies were very familiar to me. And thanks to my work in securitization and my time as a bank CFO, I understood complex bank accounting.

As I looked at the world in 2007, there was no way the subprime mortgage problem would be contained. Subprime mortgages were just the most extreme reflection of the irrational exuberance evident in the housing industry at the time. These loans were the most poorly underwritten consumer loans ever, and, as a result, they would be and were just the first to default. From my experience, I knew that credit quality always deteriorates from the peak backward. The worst loan is always the last loan made as the credit cycle peaks. Elevated losses would move naturally backward, from subprime to Alt-A and all the way back into prime mortgages. Not surprisingly, then, those investors and financial services firms closest to the eye of the housing storm would be hit first. And as it was the end of an almost 80-year price rise in housing, the magnitude of the problem would be severe.

Understanding the “why” mattered.

Awakening to Socionomics

In the spring of 2009, I was lecturing on the banking crisis at my alma mater, William and Mary, and at the conclusion of my presentation I offered that if the progression I had witnessed first in the mortgage industry and then in the financial services industry held true, country defaults would be next, with the weakest and most financially leveraged countries failing first and the financial soundness of even the strongest
western governments ultimately in doubt. It was the same
disease, just a different patient.\footnote{The blackboard charts I created in early 2009 ultimately formed
the basis for “The Global Crisis in Nine Slides,” Minyanville.com,
www.minyanville.com/businessmarkets/articles/debt-crisis-fannie-
freddie-LIFO-merrill/2/2/2010/id/26625 (February 2, 2010).}

Although I am sure I offered my view on western sovereign
credit defaults with unequivocal confidence to the class,
the reality was that I had no idea if it would be true. I was
dangerously extrapolating a progression framework that had
been correct twice already into something that I believed to
be reasonable for the future as I saw it. Worse, I could not
explain to my clients, let alone myself, why what I thought
should follow necessarily would follow.

As the markets moved dramatically higher in 2009, my
continued pessimistic outlook drew increasing skepticism.
In the eyes of the market and my clients, western govern-
ments and central bankers had saved the day. Policymakers
did what policymakers always do, they put a floor on market
prices and the economy rebounded. We had learned from the
mistakes of the Great Depression and an economic collapse
had been averted. What could have been The Second Great
Depression had been successfully mitigated to just The Great
Recession.

I was wrong and would stay wrong. Even worse, I had
violated a major market axiom. I had let my own need to be
right get in the way of making money. Still, I had seen how
much risk had been transferred from the balance sheets of
private sector financial services firms and corporations onto
the books of governments and central banks. From my per-
spective losses hadn’t been eliminated, they had just been
moved. I felt like the markets were celebrating the migration
of their losses to someone else, rather than the real end of the crisis. At every critical juncture, the monkey was merely moved onto someone else’s back.

Needless to say, my wrong outlook led me to explore an endless stream of books and articles on financial history, economic theory, and investing strategies. I wanted to understand if and how banking crises tied to sovereign debt crises; and if they did tie, why.

Unfortunately nothing I read made sense to me, at least not in explaining the chronology of events and the extreme outcome that I still foresaw.

That changed in November 2009, when I saw an interview with Bob Prechter, the president of Elliott Wave International, by Kevin Depew on Minyanville.com.² Beginning in the summer of 2007, I had been (and still am) a contributor to Minyanville, and I often found Kevin’s take on the markets to be at odds with my own. He was optimistic where I only saw gloom, and he was pessimistic when I saw opportunity. Kevin attributed a lot of his self-admitted contrarian perspective to what he had learned from Bob. And Kevin’s enthusiasm ahead of his interview with Bob was palpable. He was like a guitar fan finally having the chance to sit down with Carlos Santana or Eddie Van Halen.

What I heard in Kevin’s interview with Bob, though, went against everything I had learned in economics and thought I had witnessed in the markets—that social mood, something I had never before even considered as a possible causal factor, drove the direction of the markets and not the reverse—that

the S&P 500 is to social mood what a thermometer is to temperature or a barometer to air pressure. Markets measure mood, they don’t in and of themselves make it.

The more I studied this, the more I agreed with Bob and the major underlying principles of the new field of socionomics. Better than anything I had seen before, socionomics explained the “why” I had been searching for.

Socionomics Defined
Socionomics is the study of how changes in social mood motivate and affect social actions and our behavior, not just in the financial markets, but across the economy, in politics, and even in popular culture. Socionomics is very different from socioeconomics, which looks at how changing economic conditions and social conditions relate. The two fields have fundamentally different views of cause and effect.

As Bob Prechter offered more than a decade ago, “Understanding socionomics requires comprehending the contrast between two postulations:

1. The standard presumption: Social mood is buffeted by economic, political and cultural trends and events. News of such events affects the social mood, which in turn affects people’s penchant for investing.

2. The socionomic hypothesis: Social mood is a natural product of human interaction.... Its trends and extent determine the character of social action, including the economic, political and cultural.”

To economists, changes in social mood are a consequence of changes in the economy. To socionomists, changes in the economy are a consequence of changes in social mood. Again, these are two fundamentally different views of cause and effect.

Moving From “Why” to “How”

While Bob and others at the Socionomics Institute helped me to see the linkages of mood to specific outcomes and consequences, I struggled with how it was that mood could actually drive them. I could not “see” the transmission mechanism. And without that I could not determine how what had happened with mortgages and banking could or even would apply to countries. This frustration led me to look more specifically at how changes in our mood affect our decision-making processes and what we believe to be logical choices across a broad spectrum of different moods. I tried to figure out why, for example, we bought homes eagerly at the peak of the market, yet with record low mortgage rates and record housing affordability, we only want to rent them today.

What follows are my findings. My goal in writing this book is to share the insights and conclusions I have come to thanks to the framework of socionomics. I hope to help investors see what I now see in the markets and in the world around us and to prosper from it. No specific understanding of or background in socionomics is at all necessary for what is ahead, nor do you need a specific background or experience in finance or investments. In fact, I expect many professional investors and traders to bristle at what I’ve written.
For those with a very serious interest in socionomics, I have included a bibliography of books and articles on the topic. I believe I still have more to learn; I am the first to admit that I have had the great luxury of driving down a road that Bob, Pete Kendall, Alan Hall, and others have carved out of a jungle of conflicting economic theories and investing strategies and have lain before me. Where we agree, they deserve all the credit. Where we don’t, I will gladly take the blame.

What’s Ahead

The first chapter of the book focuses on what social mood is, and more importantly, what it is not. Too often we associate markets with emotion, and I believe (admittedly now with costly hindsight) being able to distinguish mood and its characteristics from emotion creates an enormous advantage for investors.

I then look specifically at how mood affects the decisions we make. In that process I introduce you to something I call Horizon Preference, a very simple framework I developed that links what I believe are our “natural” decisions to a specific level of mood. As market tops and bottoms are of particular interest and very relevant to investors, I also look closely at those moments’ consistent specific behavioral attributes.

Along the way, I do the following:

- Incorporate examples of specific mood-based decisions from different businesses and industries
- Walk through the housing bubble and the role changes in mood played there and how changes in mood are likely to affect higher education in the future
• Look at the connection between social mood and corporate accounting

I know the last section might not sound incredibly exciting, but for investors, knowing how social mood and accounting tie together is critical. Enron and WorldCom didn’t happen by accident; nor did Sarbanes-Oxley.

Finally, I turn my attention to where I think we are today, and I offer where I think we are headed. To be clear up front, though, this is not one of those Dow 50,000 or Dow 5,000 books. Whether up or down from here, by the time you have finished reading this book, you should be able to make your own decision on the direction of the market by better understanding the significance of what you see in the world around you every day. To help, throughout the book I have tried to be generous with charts and sidebars that offer recent real-life examples. Hopefully, these will spur you to consider other examples from your own business or industry.

One Final Thought

Before moving on to Chapter 1, “Understanding Social Mood,” though, I want to pause and put right on the table the fundamental question of “causation” and the idea that changes in mood naturally “cause” us to do things we didn’t even know we were going to do.

To be perfectly clear, when I first started looking at socionomics, not only did I not believe it, I didn’t want to believe it. As I offered earlier, the idea that changes in mood could move the market higher or lower ran counter to everything I thought I had witnessed in my 25 years in the
financial services industry. There was no way socionomics could be right.

Today I firmly believe mood drives the market. In the chapters ahead, I explain why.
Understanding Social Mood

From watching CNBC or reading The Wall Street Journal, it would be easy to conclude that it is the economy or corporate earnings that move the market. On any given day you might hear that stocks rose on a better than expected employment figure, while on another day stocks’ fall is attributed to a drop in profitability at Research in Motion or some other company.

Something had to make the market go up or down, and there are plenty of confident pundits and journalists whose job it is every day to tell us just what that specific something was.

At the risk of alienating the entire financial media complex, that something had nothing to do with today’s corporate earnings or economic reports. Although they are interesting facts, what we typically attribute a market move to are much more likely to be effects rather than causes.

Instead of considering how a positive earnings report propels stock prices higher, investors would be far wiser to think about what causes an improvement in earnings and valuations in the first place. Similarly, rather than looking at how falling housing prices might be associated with falling equity markets on any given day, it would be better to consider why housing prices dropped at all.
I believe that markets are not moved by corporate or economic data or even by external events but by us; by how we feel—our mood—and, importantly, by how changes in our mood drive our preferences and in turn the specific decisions that we make every day.

Mood Defined

Before diving into the decision-making linkages to changes in mood, I first want to define what I mean by mood, particularly our collective, or social, mood. To do that, I first want to start with mood at an individual level.

At the risk of over-simplicity, I think of our own individual mood as our underlying confidence. It is how sure we feel, often unknowingly, about ourselves and the world around us. But please appreciate that confidence is an entirely forward-looking measure. Although our level of confidence at any moment exists in the present, confidence is in fact all about the future and how certain or uncertain we are, not only about what we believe is ahead (the future itself), but whether our own immediate choice of actions—our decisions—are in fact going to be successful in that future or not.

I realize that that is quite a mouthful, but confidence is all about how we see ourselves faring ahead. And only we can determine how confident we are. Others can tell us that we have too much or too little self-confidence. The reality, however, is that only we ourselves know our own confidence level. While I can try to coach a less than confident person to be more confident, I can’t make him or her more confident. Confidence (or lack thereof) is ultimately determined
and measured from within. Just try to convince someone you believe to be overconfident that they are overconfident and you will quickly see just how self-determined confidence really is!

Why I like “confidence” so much as a synonym for “mood” is because the word ties together what I think of as the two critical elements of mood: a measure of certainty (or lack thereof) and our own belief system—what we think or feel is right at a specific moment in time—both assessed in a forward-looking manner. And it is that forward-looking element that is vital to mood’s usefulness to an investor. While our mood can and will be shaped by events from the past, it is how we apply those events to our outlook (through our hypotheses/predictions/strategies) that is critical. And as you will see, this allows us at different times to both under- and overestimate risk without necessarily realizing it. It also enables us to react differently to what is arguably the same information at different moments in time. As experienced investors know, some days markets rise on good news and on other days they fall on good news. It all depends on our level of confidence.

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<th>How Changes in Confidence Affect Our Decisions</th>
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<td>To begin to see how changes in confidence and decision making are linked, consider your own level of confidence today versus five years ago. Are you more or less confident? Would the decisions you’d make today with regards to housing, for example, be different than they were five years ago as a function of your change in confidence level? Do you think you over- or underestimated the risks in housing five years ago? Do you think you over- or underestimate them today? Do you think home values are more or less</td>
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certain today than you did five years ago? Do you think your sense of certainty in home values today is affected by your own level of confidence?

Although we don’t explicitly answer such a long list of questions like this for every major purchase, our actions, are shaped by our answers and our specific level of confidence at the precise moment we act. Five years ago we would have made one decision, whereas today we might make another.

I also like the word “confidence” as a synonym for “social mood” because confidence has the same forward-looking aspect as equity values. That is to say, we value a stock today not on what is happening today within a company, but what we believe will happen in the future. I come back to this point in Chapter 2, “Horizon Preference: How Mood Affects Our Decision Making,” but please consider here how naturally aligned stock values and our level of confidence are.

Mood Versus Emotion

Another reason “confidence” is a good synonym for “mood” is because it makes it clear that mood and emotion are not the same things. Being sad does not preclude me from also being confident. By the same token, being happy doesn’t necessarily stop me from being uncertain. Emotions tend to be much more short term in nature than mood. Our emotions are often shaped by specific events, whereas mood tends to shape the events themselves.
Many psychologists like to link our mood to a continuum that ranges from pessimism to optimism. Although I don’t necessarily disagree with the connection, I am afraid that optimism and pessimism may reflect changes in our underlying confidence/mood rather than be contributors to it. For example, I might become more pessimistic because my mood has deteriorated and I am less confident. I also feel that both optimism and pessimism carry strong links to emotion, which only makes more confusing what is already a pretty ethereal topic for most people.

With all that said, there are moments when mood and emotion are seemingly indistinguishable. Those moments tend to be at the extreme turning points of mood. (I come back to this topic in Chapters 3, “Market Peaks and All the Red Flags They Wave,” and 6, “Signs of a Bottom in Social Mood”). I think this is one of the reasons why investors repeatedly make the wrong investment decisions at critical turns in the market. At the top, for example, we miss the coincidence of strong positive mood and strong positive emotions (such as joy, love, peace) because of our extreme confidence about what is ahead. Likewise, on days like 9/11 it is all but impossible for us to separate very negative emotions, such as tragedy and sadness, from an extreme level of uncertainty.

Confidence and Our Perceptions of Certainty

There is another related aspect to mood that I think is also worth considering, and that is the fact that our mood/confidence level and our certainty about the future are highly
correlated. That is to say that the greater our own level of confidence, the more certain we are as to what we think the future will hold. Interestingly, too, the greater our confidence, the more into that future we think we can see our own version of that future as well. Put another way, when we are confident we think we know what is ahead, and when we are really confident we think we know what is ahead for a very long time to come. Companies, for example, routinely overinvest at the top in manufacturing capacity because they are certain of strong demand well into the future. The net result for most people resembles Figure 1.1, in which there is a near-perfect correlation between our level of confidence and our level of certainty of the future world around us.

![Figure 1.1](image_url)  
**Figure 1.1** Our self-confidence and our outlook on the future are tightly correlated...

*Source: Financial Insights*

The reality, however, is that the future is in no way correlated to our level of confidence. The future is going to be what it is going to be whether we are confident about it or not. Although our preparation and attitude might improve our ability to cope with what the future holds, as much as we may want—and at times truly believe—otherwise, our level of confidence won’t determine what is ahead. I try to capture this in Figure 1.2 with the horizontal line.
To me this is an important element of mood—particularly for investors—because, as Figure 1.2 suggests, it introduces the clear potential for us to over- and underestimate what is ahead due to changes in our level of confidence. I’ve come to think of this as our “hopeful delusion” when our mood rises and our “fearful delusion” when our mood falls. But as if that weren’t bad enough, the more positive or negative our mood, the more we are naturally inclined (for better and for worse) to extrapolate those delusions into the future. Take one look at analyst earnings estimates and price targets at a major peak or trough of a stock and you’ll see precisely what I mean. Few groups fall victim to the extrapolation effects of “hopeful delusion” and “fearful delusion” as repeatedly as the equity analyst community.

The more confident we are, the more into the future we think we can see and the more we extrapolate our current assessment of what we see as certain into future periods. And when our confidence and mood are extremely high, we naturally foresee great things ahead for some time to come.

The opposite, however, is true as our level of confidence deteriorates. In those times, we do the reverse and extrapolate more and more negative outcomes further and further.
out as our mood drops. Without even realizing why it is the case, we see things as becoming more and more hopeless. I have no doubt, for example, that at the very bottom of the Great Depression most Americans thought life would be uncertain forever—an extreme example of the extrapolation of fearful delusion.

As you’ll see, these delusions play a critical role in our preferences and in our decision-making processes. They are a key underlying element to both asset bubbles and panics. They also bring into serious doubt whether we or any market are really ever truly rational at all!

### The Two-Headed Coin of Certainty

Human behavior being what it is, when things go the way we were “certain” that they should have gone, we eagerly take the credit for the outcome—and in business, managers expect to be paid for the result arguing that they were skillful and that “Things went exactly according to plan.” On the other hand, when things don’t go the way we were “certain” they should have gone, we are quick to lay blame at the feet of market uncertainty—and most managers expect to be held immune from the result by arguing “Who could have known?”

In June 2011, Wells Fargo exited the reverse mortgage business and in its related press release stated that “The decision was made based on today’s unpredictable home values.”

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What I love about this statement is that it suggests that when Wells Fargo entered the reverse mortgage business in 1990, the company thought that home values were predictable. (If unpredictable = exit, doesn’t predictable = enter?)

The reality is that home values were no more or no less predictable in 2011 than they were in 1990. But Wells Fargo believed they were—as did many of us. To enter into a 15- or 20-year reverse mortgage, Wells Fargo had to believe that home prices were predictable well into the future.

When we are confident we believe that everything is predictable (and in fact, “positively” predictable). When we are not confident, things are unpredictable. “Hopeful delusion” is replaced by “fearful delusion” as our mood deteriorates.

And it can happen quickly, too. In the summer of 2007, the most overused word in the financial services vernacular was “Goldilocks” because everything from the markets to the economy was “just right”—a perfect example of “hopeful delusion.” Needless to say, not twelve months later, “fearful delusion” had set in with many expressing concern about the stability of the entire global financial system.

From my perspective, though, all of this begs the question as to whether investors overpay managers (both corporate and asset) in good times and in bad—rewarding most of them for luck (instead of skill) in good times while also accepting the excuse of unpredictability in bad.

Even worse, I’d argue that we over-reward managers for entering and exiting businesses at precisely the wrong times. From a return perspective, the best opportunities exist when markets perceive the greatest level of uncertainty, not the reverse.
As Wells Fargo’s press release suggests, few companies that enter a business at the wrong time have the stomach to hold on until the peak of uncertainty passes. For those with patience, however, there is nothing like an endless stream of exiting suppliers—all blaming “unpredictable” values—to suggest that there is enormous opportunity ahead.

To me, the best questions that analysts, investors, and boards of directors can ask management relate to issues of certainty. What does management know for certain, and why? At least with regard to investments, the more certain people are (and the more people who share that certainty) the less certain that outcome is likely to be.

**The Continuum of Social Mood**

With all of that as background, Figure 1.3 presents what I see as the continuum of our own mood and confidence levels with our weakest mood level at the bottom left of the chart and our strongest level at the upper right.

![Figure 1.3 Continuum of social mood](source: Financial Insights)
I chose the term *self-assured certainty* for the peak expression of mood (and *self-assured uncertainty* for the trough) because as I looked at the behaviors and decision-making processes at both extremes, I felt it was important to pick up what I see as the consequential behavioral characteristics of the “delusional” elements I just discussed.

At the top, for example, not only are we certain, but we are certain of being certain. It is certainty squared. As I discuss in Chapter 3, we act like that, too. Likewise, at troughs in mood, it feels like uncertainty squared as well. At the very bottom, we are certain that nothing is certain. The entire foundation of our confidence is shaken.

Most investment advisors and brokers try to present these thoughts in “emotion curves” like the one shown in Figure 1.4 from my friend Jeff Saut of Raymond James.

![Figure 1.4 Investors’ emotion curve](source: Jeff Saut, Raymond James)
The Asymmetry of Rising and Falling Mood

Charts such as the “emotion curve” in Figure 1.4 suggest that the migration from peak to trough emotion follows a natural sine curve–like progression. The reality, however, is often far different.

When our children were young, we suggested that trust is like a Lego tower. It takes a long time to build it up brick by brick, but it can be destroyed quickly. The same is true with the confidence reflected in individual stocks and stock indices. A long, protracted rise in price is often followed by a quick, steep decline. Bull markets last longer than bear markets. Hopefully it is now easier to understand why that would be the case.

I highlight this point here because many investment strategies presume not only regular tide–like market movements up and down, but, more importantly, consistent liquidity...
and orderly market conditions at all points in the cycle in which to execute them as well.

Needless to say, steep declines in confidence are likely to be accompanied by commensurately steep drops in market prices and market liquidity as market participants curtail their risk-taking as their own levels of confidence fall.

But there is another aspect to the asymmetry of rising and falling mood that I think is also important: our seemingly insatiable desire for certainty itself.

Would you buy an investment from someone who is not confident about that investment’s expected result? Would you take seriously the comments on Bloomberg or CNBC of a seemingly less-than-confident money manager?

I strongly doubt it. In the investment world, as in other businesses and in politics, we associate greater and greater levels of self-confidence in others with more certain outcomes. But consider for a moment that, in the world of investing, rising confidence and rising prices go together. Not surprisingly, as a result, we actually want and purchase more, not less, of a stock or commodity the higher the price rises (although most people don’t realize this). As the greatest potential certainty for price appreciation is when the price of a stock is low, not high, investors routinely overpay for what they perceive to be a greater certainty.

I come back to this point throughout the book, but I think it is important to consider how dramatic the price consequences can be when investors in any asset realize that they have overpaid for what they thought was certain.

Perceived certainty is until it isn’t. And as we abhor uncertainty, we then act accordingly, particularly with our money and investments.
Individual Versus Social Mood

If our own mood is the manifestation of our own level of self-confidence, then social mood can be thought of as the aggregate outcome of all of our individual moods put together. That is to say, social mood is our collective confidence.

I’d note, though, that even our own moods are rarely ever truly our own. At both an individual and collective level, our moods reflect our own interconnectivity with the world around us. Your personal mood, for example, incorporates the mood of your family, your work associates, members of your church, your book club, and so on. Your partner’s mood picks up his or her network of family, friends, and professional and social affiliations. Together your collective mood, as a couple, folds in elements of them all.

I like to think of all of these social interconnection points as mood mirrors. Sometimes these mirrors reflect your herds’ mood on you, and at other times these mirrors reflect your mood on them. Like it or not, though, your mood reflects the mood of the various herds you run with. You share their beliefs and they yours, and together, through an iterative and interactive process, your underlying mood is shaped and your brain then chooses a course of action that you believe is best.

That is how mood is formed for each of us, and how ultimately social mood comes together in aggregate. It is not just the sum of the parts, but the sum of the interactions (and re-interactions) of the parts that drive mood.

As noted in the Introduction, socionomists have deduced from the evidence that social mood is a natural product of human interaction and our natural herding instinct. As one who watches the interplay of social mood and the markets, I can say that nowhere does this iterative process become
clearer than in the formations and re-formations of various “consensus trades”—where investors go from sharing one clear belief in what security or strategy will outperform another. Particularly for the retail investor, I think it is important to realize that in the investment world, they are often the very last to see and to participate in these collective iteratively formed “crowded trades” of the herd.

**Measuring Mood**

So, how does one best measure social mood?

For the U.S. as a whole, economists and many investors tend to look at one or more of the three major consumer mood indices: the Conference Board’s Consumer Confidence Index®, the Thompson Reuters/University of Michigan Index of Consumer Sentiment®, and the Bloomberg Consumer Comfort Index®. Each has its own methodology and subcategories, but if you were to plot one on top of the other, you would see that they form very similar patterns over time. Unfortunately, as they all involve a survey process, they are often a lagging indicator. Of the three, I find the Bloomberg index most useful because it is published weekly, rather than monthly. Still, it too is lagged, as it reflects a four-week rolling average.

Bob Prechter offers that an even better measure of mood than the three major confidence indices, however, is the market itself. With a few minor caveats that I come back to in Chapter 8, “Social Mood and the Markets Today: So Where Are We?,” I agree that the broad market indices (the S&P 500 and the Dow Jones Industrial Average) are the best real-time social mood barometer out there. They rise as our mood
improves and fall as our mood deteriorates. Markets are moved by changes in our mood.

I realize for many this runs counter to the cause and effect concept suggested by others that rising markets lift our mood whereas falling markets result in a drop in our mood. As you’ll see in Chapter 2, the ways in which changes in mood affect our preferences and our decision-making processes I believe make it clear that markets are moved by changes in our mood and not the other way around.

### Acts of God and Other Exogenous Events

Having suggested that mood changes cause market movements, I’d like to pause to discuss acts of God and other exogenous events that appear to move the markets, in some cases dramatically.

Most investors (and certainly the financial press) lump together everything from hurricanes and tornados to corporate earnings and actions by the Federal Reserve as reasons for market movements up and down. At the risk of splitting hairs too finely, I’d encourage you to consider man-made exogenous events distinct from acts of God. As I hope becomes clear from this book, the decision-making processes behind man-made “events” reflect the same mood as the market itself.

Obviously, there is no human decision-making process behind a tornado, hurricane, earthquake, or other act of God. But there is a decision-making process in our own reaction to natural disasters, and mood plays a huge role in that process.

Looking at the stock market chart of the Dow Jones Industrial Average in 2005 that’s shown in Figure 1.5, it would
be very hard to point to Hurricane Katrina. (It occurred in late August.) Then again, on a chart of Japan’s Nikkei index for 2011 (see Figure 1.6), it’s all but impossible to miss the tsunami that occurred in March.

**Figure 1.5** Hurricane Katrina and The Dow Jones Industrial Average in 2005
Source: Yahoo! (chart)/CSI (data). Reproduced with permission of Yahoo! Inc. © 2012 Yahoo! Inc. YAHOO! and the YAHOO! logo are registered trademarks of Yahoo! Inc.

So why is that the case?

In periods of rising mood, as was the case in the U.S. during 2005, our rising confidence enabled us to see past the
disaster and see the economic opportunities still ahead. In periods of falling mood, as was the case in Japan during 2011, we saw only the adverse consequences and the uncertainty created by the disaster.

As I noted earlier, markets react differently to near-identical news every day. One day markets rise on positive earnings reports and on another day they fall. The same is true with acts of God and other non-financial events. I have more examples later in the book, the market’s reaction to which I expect will surprise you. As you’ll see, what is logical to us is entirely situational—it depends precisely on the level and direction of our mood (rising or falling) at a given time.

**Social Mood and the Media**

I would like to pause here to discuss how social mood and the media interact. From my perspective, media (online, print, television, radio, Facebook, Twitter, and so on) are all just more social interconnection points that serve as mirrors reflecting both the herd’s mood on you and your mood back on the herd.

Too many investors read the papers or watch television just for the news, instead of for the real-time indicator of social mood that they are. Remember, headlines are meant to sell papers and to draw you into online articles, so they are specifically written to resonate with your mood as a reader. As a result, all headlines and news stories act as mirrors on how you really feel, often without you even realizing it.
Let me give you an example of what I mean. On July 27, 2011, the following were some of the major headlines in the print edition of *The Wall Street Journal*:

“Boehner Plan Faces Rebellion”
“Banks Spar Over Loan Settlement”
“BP Results Frustrate Investors”
“Funds Could Fizzle”
“Home Sales, Prices Reflect Malaise”
“Beijing Blames ‘Foreign Technology’”
“Wary Firms Opt For Temp Staff”
“Under Pressure, McDonald’s Adds Apples to Kids Meals”
“Watchdog Sees Financial Weak Spots”
“At Soros, Family Is Foremost”
“Money Funds Dial Down Risk”
“UBS Is Forced to Scale Back”
“Deutsche Bank Draws Criticism on CEO Move”

So what were the underlying “reflecting” mood messages for each headline? How about these:

“Boehner Plan Faces Rebellion”  “Rebellion” = social unrest
“Banks Spar Over Loan Settlement”  “Spar” = adversarial relationships
“BP Results Frustrate Investors”  “Frustrate” = hindrance
“Funds Could Fizzle”  “Fizzle” = fear of what could happen in the future
“Home Sales, Prices Reflect Malaise”  “Malaise” = discontent
“Beijing Blames ‘Foreign Technology’”  “Blames” = fault
“Wary Firms Opt For Temp Staff”  “Wary” = uneasiness
“Under Pressure, McDonald’s Adds Apples to Kids Meals”  “Under Pressure” = unwillingness
“Watchdog Sees Financial Weak Spots”  “Weak” = unable
“At Soros, Family Is Foremost”  “Family Is Foremost” = self-interest
“Money Funds Dial Down Risk”  “Dial Down Risk” = fear
“UBS Is Forced to Scale Back”  “Scale Back” = retrenchment
“Deutsche Bank Draws Criticism on CEO Move”  “Criticism” = disapproval

From my perspective, these headlines did a great job of capturing our mood at the time; however, I saw none of this yet captured in market prices. During the next week, however, stocks fell precipitously. Even more, I’d note that people rioted in London and set fire to cars in Germany and Ireland, and, not surprisingly, reported consumer confidence plummeted in August.

When I saw the headlines, I felt like our mood had deteriorated significantly, but the market’s actions did not yet reflect that.

Note that the reverse can also be true, however. Headlines and the media can often be late in capturing our mood. For example, I love all of those “market plummeting” news specials on CNBC and Bloomberg. They are great indicators of a pending change in market direction. Why? Because they pull together both emotion (with all the scary music that naturally accompanies those programs) and our collective sense of uncertainty. And if it is on national television, we must all be feeling it, too.

The same is true for many magazine covers. They are often much better contrarian indicators than anything. For example, The Economist featured a particularly grim cover on its October 1, 2011 issue with the headline, “Until
politicians actually do something about the world economy... BE AFRAID,” with “BE AFRAID” in big bold red lettering in the center no less. That cover coincided perfectly with a major market bottom, following which the S&P bounced more than 20% in less than a month!

More often than not, investors fall victim to the mood and emotion reflected in the media and do precisely the wrong thing in response. Rather than readily accepting headlines and cover stories as fact, investors would be much wiser to ask themselves whether the “certainty” reflected on magazine covers and news stories all around them is already reflected in market prices. When it is, a significant market turn may be at hand.

Mood Groups

One of the important aspects of how social mood comes together is that it enables moods to be local, regional, national, or even global in nature. Europe’s social mood is different from Asia’s, and Germany’s is distinct from Greece’s. Mood can also be industry and company specific. No doubt the mood inside of HP today is very different from the mood at Dell or Apple, for example.

I believe that it is the consistency in mood, however, that drives correlations within and across markets. I return to this topic in Chapter 8, when I look at the potential role communications technology may play in our current market mood overall.
Final Thoughts

I realize for many readers the notion that the markets are driven by changes in our confidence level, rather than external, exogenous events, might be difficult to believe—particularly as it turns most financial news media cause and effect on its head. I also appreciate that for some the idea that what we think is logical is somehow tied to mood and, therefore, subject to constant change may also be disturbing. And I am sure, too, that there are more than a few economists who might be bothered by the notion that we and the markets are rarely, if ever, rational. But the consistent, repeating patterns of near-identical, concurrent behaviors across social movements, politics, and financial markets—even the arts—over long periods of history suggests that there is something else, beyond events, that underlies our actions.

As Mark Twain put it, history may not repeat, but it certainly rhymes.

I believe it all ties to confidence, and in Chapter 2, I tackle how and why that is the case.
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