The Socionic Theory of Finance

Title: The Socionic Theory of Finance
Author: Robert R. Prechter
Publisher & Date: Socionomics Institute Press, Gainesville, GA, USA 2016

Book Review

Henry “Hank” Pruden, PhD

This prodigious piece of work (813 pages) encompasses a new school of thought that proposes to more accurately explain the behavior of financial markets. Building upon scientific, empirical observations plus theories and findings from psychology and the social sciences, Mr. Prechter presents a comprehensive theory that is intended to displace the efficient market hypothesis and kindred economic models. The implications of this endeavor by Mr. Prechter are profound for students and practitioners of financial markets.

At the base of The Socionic Theory of Finance is the thesis that financial markets, such as the Stock Exchange, are a manifestation of “Unconscious Herding Behavior.” Hence, financial market trends and patterns are a reflection of endogenous herding behavior. Changes in market trend direction occur because of changes in social mood. A swing in mood, say from optimism to pessimism radiates throughout the financial community to shape herd behavior. The price, volume, and sentiment measures of markets follow in an orderly, predictable fashion according to a hierarchy of fractals and the structure of the Elliott Wave Principle.

Mr. Prechter buttresses his main thesis that market behavior is a manifestation of herd psychology in action through a careful and comprehensive critique of earlier and recent thought in economics, psychology, and social sciences plus practitioners’ observations and actions. Aiding Mr. Prechter in his endeavor are excellent contributions by Alan Hall, Brian Whitmer, Wayne D. Parker, Wayne Gorman, John R. Nofsinger and Kenneth R. Olson. All of those contributions appear in this book by Robert R. Prechter.

I am convinced that both students and practitioners in financial markets will discover these brilliant excursions by Prechter et. al to be intellectually broadening, financially rewarding and in many cases entertaining. In sum, The Socionic Theory of Finance by Robert R. Prechter is an important book and a worthwhile purchase.

Henry O. (Hank) Pruden, Ph.D is a Professor of Business and Director of the Technical Market Analysis Program at Golden Gate University, San Francisco, CA, USA. He is also a Chairman of the Technical Securities Analysts Association of San Francisco (TSAASF). Hank is an honorary member of SAMT. www.hankpruden.com
His Socionomic Theory of Finance (STF) opposes the Efficient Market Hypothesis (EMH) which equates economic and financial markets on ten major points. In brief, Prechter accepts that in the economic realm, because producers and consumers are knowledgeable of their own needs and desires, the pricing of utilitarian goods and services is mostly objective and motivated by conscious utility maximization; in this context the balance of desires (supply and demand) between heterogeneous groups of producers and consumers leads to equilibrium-seeking in prices. But his STF proposes that in the financial realm, because investors are ignorant of what other investors will do, the pricing of investments is mostly subjective and motivated by unconscious herding; in this context in contrast to the dismal science of economics, Prechter's theory is original, exciting and intellectually fulfilling. Every chapter rebuts conventions and offers groundbreaking insights in presenting The Socionomic Theory of Finance is a 13-year-long effort by Robert Prechter. It includes supporting chapters from twelve other scholars, writers, researchers and analysts. In contrast to the dismal science of economics, Prechter's theory is original, exciting and intellectually fulfilling. Every chapter rebuts conventions and offers groundbreaking insights in presenting a cohesive mo