# The Swiss Association of Market Technicians

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**Ron William, Vice President & Head of the Geneva chapter of SAMT hosted an interview in July 2013 with Robert R. Prechter, President of Elliott Wave International**

**Mr. Prechter was a guest speaker at the 2013 MTA Symposium in New York, USA**

*"How will the next few years be characterized? Inflation, Deflation or Both?"*

Ron William & Robert Prechter at the Socionomic Conference, Atlanta, April 2012

*Robert Prechter was born in 1949. He attended Yale University on a full scholarship and received a B.A. in psychology in 1971. He was a professional musician for four years, and in 1973-74 his band recorded an album, now on CD. In 1975, Prechter began his financial career by joining Merrill Lynch's Market Analysis department under the tutelage of Robert J. Farrell and in 1976 began writing Elliott wave analysis of the financial markets.*

*In 1979, Prechter founded Elliott Wave International and began publishing monthly market analysis under the masthead, "The Elliott Wave Theorist."*

*Prechter served as a member of the board of the Market Technicians Association for nine years and as the MTA's President in 1990-1991. He currently serves on the advisory board of the MTA Educational Foundation. Over the years, Prechter expanded his business and now employs a staff of analysts who apply the Wave Principle to all major markets around the world. A decade ago Prechter created the Socionomics Institute, which is dedicated to explaining socionomics, and he funds the Socionomics Foundation, which supports academic research in the field. His book Elliott Wave Principle has been translated into a dozen languages, and Conquer the Crash was a New York Times best seller.*

*Prechter has made presentations on socionomic theory at Oxford, Cambridge, Trinity, the London School of Economics, Georgia Tech and MIT. In 2008 and 2010, the Georgia legislature invited Prechter to testify before its Joint Economic Committee regarding the state's real estate and economic crises. In 2009, EWI's book-publishing division, New Classics Library, published Lewis Little's "The Theory of Elementary Waves," which postulates a purely physical, and thus rational, theory of sub-atomic physics. Prechter's articles on the Shakespeare authorship question have been published in four journals and newsletters. Robert is a member of the Shakespeare Oxford Society, the Shakespeare Fellowship and the Triple Nine Society.*

**Ron William: The Market Technicians Association recognized you as the recipient for their 2013 Annual Award at their 40th Anniversary Gala Dinner. How did you feel being nominated for your life-long outstanding contribution to the development of technical analysis? (Please select link to review the MTA 2013 Award, Robert Prechter acceptance speech)**

Robert Prechter: Humble and proud at the same time.

**RW: Looking back in time, what intuitively attracted you to the study of financial markets early on in your career?**

RP: It was a combination of things. I must have had some interest in money, because as a kid I used to search out rare coins back when it was a viable hobby. At a young age I mowed lawns, sold snow cones with my brother from our driveway, and worked at a grocery store after I got my driver's license. But earning money was just a means to an end. I took my teenage savings at age 18 and went to Europe with my best friend for seven weeks. This is back when Europe on $10 a day was possible. Now it's $20 an hour.

In college I had only lukewarm interest in my studies, but each time a course on mass psychology became available I got excited and couldn't wait to take it. It happened twice, and both times the course was canceled. So I did some reading on my own. At the time my dad subscribed to Richard Russell's *Dow Theory Letters* which intrigued me. The world of Dow averages, the advance-decline line and contrary opinion was mysterious at first, but the approach made sense as soon as I understood it. I read dozens of books on markets. Eventually I figured out that movements in aggregate financial pricing are psychologically motivated.

That's when the finance and mass psychology interests merged. On the side, I was passionate about pop music. In college I did a study connecting social trends and pop music lyrics. This third interest, which I thought was unconnected, eventually merged with the others.

**RW: How much realization did you have of the vast ambitions that lay ahead?**

RP: None. I was always driven but perhaps not always realistically. In my early 20s, I wrote songs and co-produced a record album. I wrote a spy novel and got an agent. In each case, there were good possibilities. Things changed when I decided my passion was to be a technician. That's when I got really focused. I had discovered things I wanted people to know about: first the Elliott wave model, then socionomics.

**RW: What type of influence did your background in psychology and music have in developing your interdisciplinary thinking of the markets?**

RP: Psychology underlies all financial markets. Markets, no matter how different, move up and down for the same reasons. I know people who have changed from being fundamentalists to technicians but none who converted the other way around. I never had to do that. I was a technician from the get-go.

Music didn't figure in until early 1976. I was looking at a wall chart of the Dow and thinking about the big change I had felt in popular music around 1965-66. That was the day I had the socionomic insight: Waves don't just describe stock market action; stock market action coordinates with all kinds of social trends. The motivation behind the parallel changes in the character of social expression had to be something fundamental. I decided that waves of social mood would tie all these trends together and explain them, too. Compatibly, if the market is a patterned hierarchical fractal as R.N. Elliott described, then its fluctuations must arise endogenously from human interaction, not from news. So, financial, economic and political events don't cause mood changes; they result from mood changes.

**RW: How did you progress to working with Bob Farrell, at Merrill Lynch's market analysis department in New York? What were the most memorable experiences?**

RP: After an unsuccessful job-seeking tour of four major firms in New York, I asked my Merrill Lynch broker if his firm employed technicians. He said they had a whole department of them. Upon calling, he found out that their junior man was quitting. Thirty people had applied for the job. Bob Farrell took a chance on me, and I'll always be grateful.

It was a department full of stars: Bob Farrell, Dick McCabe, Phil Roth, Steve Shobin and Bob Nurock are among the names people would know. My first mentor in the department, Ilona DeVito, was a Hungarian countess; the *New York Times* recently interviewed me about her.

Bob graciously invited me to the MTA's first annual conference in 1976, which got me involved with the organization. I guess my most memorable experience was in 1978 when the department held a year-long stock picking contest. That year was made for an Elliott guy. The Dow bottomed on March 1 at a 61.8% retracement of the 1974-1976 rally, rose in five waves into September and then plummeted. I bought all my stocks near the low and sold out in September.

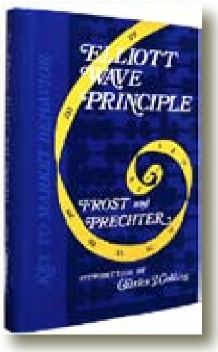
The autumn collapse put everyone else near breakeven, so I won by a good margin. It wasn't so much stock picking but wave analysis. Luckily, I didn't have to try to do it again!

> **"FLUCTUATIONS MUST ARISE ENDOGENOUSLY FROM HUMAN INTERACTION, NOT FROM NEWS. SO, FINANCIAL, ECONOMIC AND POLITICAL EVENTS DON'T CAUSE MOOD CHANGES; THEY RESULT FROM MOOD CHANGES"**

**RW: During those early years, how accessible was literature on Ralph Nelson Elliott's Wave Theory*?**

RP: It was virtually unavailable. I learned the basics by reading Russell's and Frost's analyses in *Dow Theory Letters* in the early '70s. I got hold of some third-hand writings. In 1976, Steve Shobin gave me a fifth-generation Xerox copy of Bolton's book. Then I went on a quest to find Elliott's original books. I found them on microfilm in the New York Public Library and paid for print copies. I found copies of his market letters at the copyright office in Washington. Then I met with the publisher of *Financial World* magazine and got permission to reprint Elliott's articles from 1939. In the end, I published all of Elliott's books, articles and available market letters as well as the Elliott wave market commentary by Hamilton Bolton, Charles Collins, A.J. Frost and Richard Russell. Now everyone has access.

**RW: What was the main purpose behind writing "The Elliott Wave Principle" with A. J. Frost?**




RP: I started writing a book on the Wave Principle and found out that Frost was doing the same thing, so I wrote him and suggested collaborating. He agreed and sent me what he had. I melded the two and turned it into a book. When it was published, in November 1978, I started schlepping books around New York in a shopping bag, pitching it to buyers at bookstores with financial sections. Three of them carried it. It started as a shoestring operation.

**RW: *The Elliott Wave Theorist*, which is still the flagship of your firm's wide range of market reports, has been in publication since 1979. Can you describe its evolution over these past 34 years and what is your vision for the future of Elliott Wave International?**

RP: My wife and I started the business together. I remember telling her I wanted to keep it just the two of us. Little did I know we would end up with nearly 100 people! *The Theorist* has changed in that I don't analyze all the markets every month as I used to. I write on them only when I have something to say. This has actually made my analysis better. Markets don't say something important every month, at least not to me. I also have the flexibility to talk about the big picture and socionomic theory.

We have so much talent here now. Steve Hochberg and Pete Kendall cover the markets monthly and short term in the U.S., while Brian Whitmer, Mark Galaseiwski and Chris Carolan cover Europe and Asia, and Jeff Kennedy covers commodities. These guys are so good at analysis and writing that if I were outside the firm and could read only six people, I would choose them.

We also have a stable of analysts who cover specialty services – currencies, interest rates, energy markets, metals, and commodities – from long term to around the clock. We also have a Flash service, where we make market calls for traders. We are in the process of refining a computerized expert system that we're just now beginning to employ in making market calls. We'll report on the results soon.

I also formed the Socionomics Institute, which publishes *The Socionomist* and organizes annual conferences. You can find SI at www.socionomics.net. As for the future, I am working on a collection of studies in socionomics and plan to write a more complete book on Elliott waves.

**RW: How do you suggest the Elliott wave model is best used – in isolation or in tandem with cycles or specific market timing indicators?**

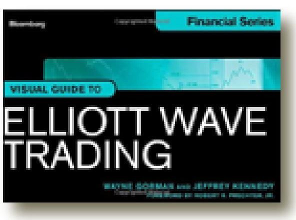
RP: I have always employed indicators. Whether using them helps or hurts wave analysis is open to debate. My view is that they help in all cases except when readings are surpassing historic extremes.

One thing I would state unequivocally is that you can't employ indicators effectively without understanding the degree of the wave in progress. That's what tells you how extreme to expect the indicators will get. Knowing the degree and wave structure of a move has allowed me at times to predict the levels of indicators, for example in late 2008, early 2009.

Another thing I would assert is that quantification of indicators is a path to failure. Market prices form a fractal, and as soon as you apply quantitative parameters, you blind yourself to everything outside those parameters. Patterns have only relative quantities, not absolute ones.

**RW: What is the best method of using risk management in the application of the Elliott wave model?**

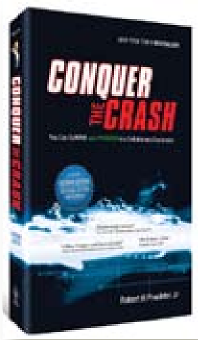
RP: Jeff Kennedy and our education specialist Wayne Gorman have just finished a book for the Wiley-Bloomberg Financial Series called the "*Visual Guide to Elliott Wave Trading*." They discuss in detail how they go about entering, exiting and managing risk in trades prompted by Elliott wave analysis. Most of them are trades they actually made. They also discuss their errors and how to avoid them. Those interested in this topic should go there.




**"CREDIT IS ALREADY CONTRACTING IN EUROPE, JAPAN IS DEEPLY INTO DEFLATION, CHINA IS ON THE BRINK OF A CREDIT CRISIS, AND INTEREST RATES HAVE BEGUN TO RISE AROUND THE WORLD."**

**RW: In your book *"Conquer the Crash,"* you accurately forecasted the credit crisis, the real estate and stock market bubbles. What is your view of the current markets and what do you believe would serve as the best strategy to preserve capital?**

RP: I didn't anticipate the commodity bubbles, but everything otherwise looks to be on track. I'm bearish across the board for stocks, bonds, real estate, commodities and precious metals. The true top in stocks was in 2000. The top in real estate was in 2006. The top in commodities was in 2008. The top in metals was in 2011.




It's been 13 years of rotating tops, and the inflationary forces have done all they can to get prices to hold up. But they're failing. Credit is already contracting in Europe, Japan is deeply into deflation, China is on the brink of a credit crisis, and interest rates have begun to rise around the world.

I think deflation is going to crush the prices for all investments globally. Many banks and insurance companies will fail, and pension funds will fold. The only thing that will gain in value is cash. At some point in the crisis it will pay to switch to gold and property.

Deflation is still the most contrary opinion in the financial universe by a huge margin, as I demonstrated at the MTA symposium in April. I think the world will be a strikingly different place in just a few years, and almost no one is properly prepared for it.

**RW: How would you compare the Kondratieff cycle's winter phase that some believe we are currently experiencing to the historic depression period of the 1930s...?**

RP: The Kondratieff cycle has continued to operate since it was first proposed. That's a pretty good sign of something real. Each cycle has differences, which the Elliott wave model helps explain and anticipate. The low in 1896, for instance, was mild, fitting the Supercycle-degree third wave advance in progress at the time. The current peaking process is of one degree larger than that of 1929, so the mania for investments has been longer-lived, and the upcoming low should be commensurately more devastating financially, economically and socially than that of 1932.

**RW: What key indications are you anticipating for the endgame of the current secular bear market in stocks?**

RP: The end will come when debtors default, the global financial obsession disappears, and people swear off financial assets for the rest of their lives.

**RW: Can government policy help in reducing potential deflationary pressures ahead?**

RP: Government has been the biggest proximate cause of the problem. It fostered debt expansion by creating the Federal Reserve System, the FDIC, the Federal Home Loan Banks, Fannie Mae, Freddie Mac, Ginnie Mae and the student loan programs. Government has pushed credit on people like a heroin dealer in the ghetto. It is the main reason debt has expanded to unsustainable levels. Government can only continue to make things worse and cannot stop the inevitable outcome.

**RW: How would you describe the study of socionomics and what level of importance does it have in today's economic and politically uncertain landscape?**

RP: Socionomics is the study of how waves of social mood influence the character of social actions, in every area from macroeconomic trends to political decisions to trends in music, entertainment and popular culture. Socionomics is always important, but it is especially so when social mood is at extremes. It has been at a positive extreme for much of the past 15 years.

**RW: In your opinion, to what extent has "the universal applicability of technical analysis" grown over the years?**

RP: People's beliefs about financial causality change along with the trends in social mood. Technical analysis always gains in popularity when markets move sideways or down, and it loses popularity when they rise. I suspect that relationship will never change.

**RW: What do you recommend the next generation of technicians strive toward in order to ensure further success within the industry?**

RP: Stop resorting to external-cause thinking when performing financial analysis. It can't work and doesn't work, because the theory of causality behind it is false; it's backwards. Economic and political trends and even central-bank actions lag the market; they don't lead it. Pure technicians are rare. Be one.

**RW: On a personal note, what other passions do you enjoy in life?**

RP: My weekends over the past 15 years have been devoted to reading the plays, poems and stories of the Elizabethan era for a book I'm writing. I like the camaraderie at our company and enjoy seeing people find their niches. Talking to my market forecasting buddies is still fun, as they are the only ones who know what the life is like. If I can squeeze in a swim at the end of the day, that's the tops.

**RW: I also understand that you are an avid reader of Shakespearean literature as member of the Shakespeare Oxford Society and the Shakespeare Fellowship. May I ask if Shakespeare were alive today and were to write a play about the experiences of the financial market what type of play would it be?**

RP: The markets would start out *As You Like It*, morph to *A Midsummer Night's Dream*, go through *The Tempest* and end with the bloody massacres of *Titus Andronicus*. As investors acted out *A Comedy of Errors*, the misanthropic *Timon of Athens* would be in the wings, mumbling, "Each one will pay, *Measure for Measure*."

* References: *R.N. Elliott's Masterworks; R.N. Elliott's Market Letters; The Elliott Wave Writings of A.J. Frost and Richard Russell; The Complete Elliott Wave Writings of Hamilton Bolton.*

For additional information about Robert Prechter, CMT, go to
www.robertprechter.com
and Elliott Wave International, go to
www.elliottwave.com

To learn about the Socionomics Institute, Socionomic Theory and the new DVD
"Robert Prechter at Oxford, Cambridge and Trinity," go to
www.socionomics.net

The world's few deflationists:
www.deflation.com

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