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Nobel Prize in Economics

Awarding the Nobel Prize to Robert Shiller, the man who developed P/E 10 as a measure of relative valuation, is well-deserved; however splitting the prize with Eugene Fama, who opportunistically conjured-up the Efficient Markets myth is a travesty.

Eugene Fama was Benoit Mandelbrot’s post-doctoral student. That Nobel Prize should rightfully been awarded posthumously to Mandelbrot. The notion that market prices “embody all the known information”, and are therefore “efficient”, is a bare-faced lie. Throughout history there is not a single instance where empirical evidence backs this half-cooked hypothesis. In fact, every Boom/Bust Cycle, and swing of the valuation pendulum, from one extreme to the other, repudiates it. This makes Eugene Fama little more than an opportunistic fraud. The photo in the paper, with a scheise-eating grin speaks volumes: “I’m still fooling most of YOU, and getting away with it!”

Over half a Century ago, Benoit Mandelbrot disproved the Efficient Markets hypothesis. In the (Mis)Behavior of Markets, the father of fractals disproved the possibility of Efficient Markets for all but half-wits. If market prices incorporated all the known data, then bubbles and crashes would be impossible. In the 20th Century the Dow, experienced volatility in excess of 20 standard deviations, shown (in aqua) below, as opposed to the 2 standard deviations predicted by randomness (in orange). According to current Mathematical models, such extreme “randomness” could theoretically only have occurred over the span of 900,000+ years. As Mandelbrot concluded, such mathematical models are highly delusional in their gross underestimation of risk. Investors who rely on them, are the real suckers.
If you reconcile Mandelbrot’s chart above with the *Exceptional Bear* Elliott count, for you quickly realize that the extremes in *volatility* in the *1930’s & 1987* correspond with *Supercycle degrees of trend*, or *magnitude*. Others correspond with subsequent *Cycle & Primary degree corrections*, when investors’ *expectations* feared a relapse into Depression.

Mandelbrot’s chart, edited to show these *fat tail risks*, result entirely from *corrections*. The higher the magnitude, which RN Elliott termed *degree of trend*, the more extreme the price swings beyond those predicted from the perspective of baseline *Primary degree*.

Ironically the largest volatility swing occurred in the nascent Great Bull Market, as a wave (ii) *correction* within a *bullish Diag II*. The *Diag II* is the *most bullish of all patterns*, (likewise, its reciprocal *Diag II* is the most *Bearish* of all patterns). The *Diag II* heralded, the long trajectory from 1984 to 2000. If viewed on an arithmetic chart, this 16-year stretch is *10X as long as the entire price trajectory to 1982*. The *Vth wave* within *Supercycle (III)*, was the only segment which actually unfurled at *Supercycle degree*. The largest of the rest cluster around *Waves A & C* within *Supercycle (II)*.
In the chart above you see Cycle Wave IV as a fractal of the larger Supercycle Wave (IV) in process. Below is a close-up of Cycle Wave IV. Waves A & C Alternate to trough the entire Bear Market. In the example below of Cycle Wave IV, you see the trough occurred at A and C completed quite a bit higher...the drop from d-e between 1973 & 1975 appropriated nearly 50% of market value, and much more through inflation.
Although the values trough occurred at the culmination of Wave (A), it was Wave (C) which transcended to Supercycle degree abruptly as a CRASH. Next in descending volatility comes Cycle Wave II, followed by Primary waves 2 & 4 within Cycle Wave III. In essence, all were Corrections. This fact reinforces the emotional tendency for linear projection, in obvious ignoral of the essential cyclicality of all Nature. Without our own sleep cycles, we could not survive....how is it that we continue to expect the economy to remain “awake” on stimulus. If you have ever attempted to forestall sleep for several days, you soon realize that stimulants, like QE are temporary, and you eventually crashed likely ill as well. QE is a drug, and as a nation we are hooked on it! Whether QE is withdrawn or not, this economy must Crash.
Below is the entire Supercycle Wave (II), sibling of the current Supercycle Wave (IV), at the same Supercycle magnitude.

As you see above, Wave (C) was the Market price trough, while Wave (A) ended 1921 was the values trough.
Efficient Markets disproved by pendulum “value” swings

Yet another proof of randomness fairy tale is the values chart, again reconciled with an Exceptional Elliott Wave Count (original and when found elsewhere without due credit, it has been plagiarized). In essence, if all information were reflected, then the graph below would consist of a horizontal line with very little waviness within a narrow “channel” spanning between 1 & -1. As you see this is not the case.
**Supercycle (IV) repeats Supercycle (II)**

= **Opportunity**

Only in the last three years, totally undetected, a leap in magnitude of 400% has occurred. We are back at the same *degree of trend & Volatility* as 1929. Right now, prices are anything but reflective of value, if they represent all the known information as Eugene Fama persists; we need to upgrade our perspective from linear to cyclical and a function of Elliott’s magnitude. Since the reversal is totally unforeseen, risk we are at an extreme in the over-valuation of long stocks and indices, and the corresponding *undervaluation* of the $VIX, inverse ETFs and knee-jerk “Safe Havens”.

As a result, is the $VIX is more *undervalued* today than at any time in history, by the same reasoning *market indices* are just as *over-valued*.

**RN Elliott’s & Benoit Mandelbrot’s discoveries reconciled**

Elliott’s discovery of magnitude, and Mandelbrot’s fractal insights come together synergistically via *Exceptional Bear’s* reconciliation. The point where Elliott and Mandelbrot become reconciled is precisely in these transitions in degree of trend, from *Primary*, Baby Bear, to *Supercycle* Papa Bear, in two steps – *that’s what provokes Spikes and Crashes*. If the market reflected extreme undervaluation and overvaluation on a massive scale via pricing, there could be no possibility self-regulating markets any more than in Nature’s ecosystems.

Even with all of today’s complex mathematical modeling, the degree of trend remains *under the radar*. Far from random they are the logical outcome of degree of trend morphing *not 1 but 2 degrees*, when investors expected a continuation of the past in linear fashion.

_Eduardo Mirahyes_

*Exceptional Bear*
"Opportunistically timed investments that maximize wealth"