



Immediate Openings: Scapegoats and Villains Wanted for this Bear Market

Summary: The dynamics of human nature on the scale of the collective consciousness generates a self-sustaining cycle of alternating periods of increasing positivity (bull markets) and increasing negativity (bear markets). These cycles permeate all aspects of human endeavor.

A bull market in stocks reflects an upsurge in positivity and optimism in the collective consciousness. As the optimism increases entrepreneurs become more entrepreneurial, traders get more aggressive, caution is thrown to the wind, and eventually a speculative bubble ensues. Speculative bubbles are the peaking action of the wave of increasing optimism. The positivity becomes a contagion that sweeps away all restraint. It becomes common sense that anyone can make a fortune. The unbridled confidence that marks this peaking action typically takes up residence in a 'sure thing' 'no-brainer' investment where you just 'cannot lose'. The first 'sure thing' investment was the internet stocks. Then it was real estate, and then the stock market, then the commodity markets - and now gold.

A bear market results from an increase in negativity and pessimism in the collective mood. And as the pessimism increases, risk taking yields to the bunker mentality. Both individuals and corporations hunker down. In the economic sphere the fullest expression of great negativity and high anxiety is a depression where economic activity can grind to a near stand-still.

The dynamics of the collective mood affect more than investments. Remember the relationship between stock trends and hemlines? The short skirts of the roaring 1920's were followed by the long dresses of the 'Great Depression' and World War II. The "Go-Go Years" of the 1960's stock market boom were accompanied by the "Mini-Skirt" craze. And both mini-skirts and booming stock prices ended together into the deep recession of the 1970's. However as we have noted before the collective mood of a nation impacts a much wider range of phenomena than stock markets and fashions. The mood of the collective consciousness decides the content and quality of entertainment, of sports, and of politics. It decides whether heroes are celebrated or villains are popularized.

And all this is due to the fact that neither a person nor a nation can experience an abstract mood. Both an individual mind and the collective consciousness require situations, events, and icons to justify the prevailing mood. Neither a person nor a country can sustain abstract anger. You have to be angry *at* something. And neither a person nor a country can experience abstract elation. You have to be happy *about* something. So the gloom of a depression creates horror movies and Zombies, while the rising hope and positive energy of a bull market creates super-heroes. A down mood is blamed on rainy weather while a happy mood is attributed to the home team winning. The topic of this little essay will be the process whereby the transition from a bull market to a bear market turns heroes and idols into scapegoats and villains. Tiger Woods is just the latest in a long procession of fallen idols.



“A Time to get and a time to lose...”

The wheel or fortune is the economic cycle. And it arises from a cycle in the collective consciousness of rising goodwill, to excessive optimism, to deepening negativity, to excessive pessimism to rising good-will, and so on. It is the nature of the rising collective mood that creates bull markets to also elevate idols. And it is the nature of the increasing negativity that creates bear markets to knock those idols down. This cyclical dynamic is likely as old as human societies. It was detailed by Lao Tzu back in the 6th century BC, and it is as relevant today as it was in ancient China.

Chapter 36

That which shrinks

Must first expand.

That which fails

Must first be strong.

That which is cast down

Must first be raised.

- Tao Te Ching of Lao Tzu,

translated by Gia-fu Fend and Jane English

We introduced the concept of a ‘wheel of fortune’ in human affairs in the context of what we call ‘the magazine cover story syndrome’ in pages 39 to 109 of the tutorial “Why technical analysis?” Here we link the rise and fall of careers to the rise and fall of bull markets. Our basic thesis is that a trend of rising positivity in the collective mood creates bull markets, heroes, and popular icons, while the increasing negativity in the collective consciousness that creates bear markets requires scapegoats, the debunking of heroes, and the humbling of the idols of the expired bull market.

The dynamic of the ‘fall’ part of the ‘rise and fall’ cycle was alluded to very clearly by Lao-Tzu. That which later shrinks must first be expanded, and that which is later cast down must first be raised up. The rising positivity that creates a bull market enlists heroes, ideals, and champions to justify, anchor, and focus the increasing optimism. The end of a bull market and its replacement by a bear market is very bad news for those persons and ideals that were uplifted during the bull market. The increasing negativity that creates, sustains, and deepens a bear market requires fallen idols, scapegoats, whipping boys, and the trashing of ideals to justify the pessimism. As the bull market cycles into a bear market the former heroes become the targets of the growing anger, disillusionment, and scorn.



The bigger they are, the harder they fall.

As the bull turns to bear, faults that were over-looked in the growing optimism that drove the up trend are revealed and magnified by the increasing antagonism. Shortcomings that were not relevant when everyone was happy are deeply important to those who are unhappy and needing to vent. Blunders and even crimes that rising positivity made acceptable are rejected by the deepening gloom that is a bear market. In this regard an important point must be emphasized. The negative mood of a bear market does not create the faults and flaws, the blunders and crimes that turn paragons to pariahs. The negativity reveals these faults and flaws because it is faults and flaws that the growing antagonism that is a bear market requires. A bull market needs paragons of virtue to justify the mood of rising optimism while a bear market needs criminals and scandals to justify the mood of deepening negativity. Our interest is not the fact that faults bring low the high. It is the timing of the falls that interest us - specifically the correlation of bear markets with fallen idols.

Arguably the most prominent person whose fall was inextricably linked to the dynamics of a raging bear market was President Richard Nixon. His worsening predicament and eventual impeachment proceedings occurred in the context of a collapse in the Dow Jones Industrial Average from 902.02 on 14 March 1974 to a 519.13 low on 02 Jan 1975. He resigned the Presidency at the most oversold point of this bear market, and just weeks from the on-set of bottoming action. The extremely negative collective mood that produced this bear market also produced the first Presidential resignation in the history of the United States. Now I am no fan of Nixon and I never have been. So this observed linkage between the deepening negative mood that drove that bear market and Nixon's demise it not at all intended as an excuse or a vindication. What was tolerable about Nixon during the bull market of 1971 to early 1974 quickly became intolerable during the ensuing bear market. Nixon's resignation was the end result of several deep personality flaws. However it was also a sentiment indicator.

We are currently living through a golden age of fallen idols. This golden age is the result of the transition from the booming optimism of the 1990's and its raging bull markets to the deepening pessimism and the resulting bear markets from the year 2000 bust of the internet bubble. It is our contention that the series of short lived speculative bubbles from the year 2000 (internet bubble, real estate bubble, general stock market bubble, commodity market bubble, and now the gold bubble) speaks more to collective desperation than genuine optimism. One by one the heroes and icons of the 1990's are being vigorously de-throned. And this collective casting down is occurring across all the most visible sectors of human endeavor - business and economics, sports, entertainment, and politics. We suspect that by the eventual conclusion of this bear market into 2012 - 2014 no one who was raised up by the optimism of the 1990's will still be enjoying an elevated reputation. Our downside targets for the stock market suggest that this negative collective mood will have an insatiable appetite for scandals, crimes, and public embarrassments. After all, this is a Kondratieff scale event.



A partial 'Perp' walk of fallen idols... representative, not exhaustive

from business and economics:

- The 'Buy and Hold Strategy' and anyone who ever recommended it
- Hedge Funds, especially firms like Madoff Investments and Galleon (in a bear market, guilty until proven innocent)
- Investment Banks - whether they fail like Lehman or are successful like Goldman, the negative collective mood is convinced they all must be guilty of something
- CEO's in general, and especially their pay scales

from government:

- Alan Greenspan - from master mind to master bubble maker
- Henry Paulson - from assistant to John Erlichman, to runner up to Time magazine 'Person of the Year', to the poster boy for the financial debacle - a full circle
- Ben Bernanke will almost certainly end up on this list if he is unlucky enough to win a second term
- Tim Geitner - contrast recent demands for his resignation to the complete elation that Wall Street displayed on the first news of his pending appointment
- Mark Sanford - from Presidential hopeful to political pariah with the greatest of ease
- The Secret Service - successful test of a new open admissions policy at the White House

from entertainment:

- Michael Jackson - his fall from grace was so complete that to place anyone else in this category would only serve to belittle the magnitude of his disaster
- Changed my mind - feel compelled to list the "Balloon Boy" incident - what better metaphor for our whole culture than this frantic chase after empty promises and false assurances

and last but certainly not least, from sports:

- Mark McGwire - from hall of famer candidate to the drug hall of shame
- Barry Bonds - the same
- Sammy Sosa - ditto
- Michael Vick - a sentence spent in the UFC would have been more appropriate than prison
- Bret Favre (needs only 2 seconds to decide to throw a pass but takes years to decide if he really likes playing football - raised waffling to new heights)
- Tiger Woods - as one wit noted, the Tigers Woods are now crowded with bimbos

... more to come, just continue reading the headlines - how about a scandal pool