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“The Biggest Stock Market Crash in History is *STILL* coming… ….Shares will fall by another 87%”

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Now that we’ve got your attention…

Are you sick of these headlines yet? We know we are. As if endless talk of war was not titillating enough, the media is currently in a second feeding frenzy over stock market doomsayers.

It seems doom and gloom is great business (for a select few anyway). John Price has already explained the economics of the game in his article “*The Dow: Below 1000 or above 40,000?”*

Now that we know that there’s a game being played, as investors we have to decide how we’re going to participate. And remember deciding not to participate, say by burying your head in the sand, is still playing the game!

Let’s start by looking at the track record of one of the most popular players in the game: the “Technical Analyst”.

A vocal “guru” in the field of technical analysis is Robert Prechter, author of *Conquer the Crash*. In his book, Prechter predicts that the shares will fall another 87% from their current levels. (If we didn’t know better, we may even be tempted to rush out and buy it!)

Prechter adheres to a system of technical analysis known as “*Elliott Wave Theory*”. This theory, developed by Ralph Nelson Elliott in the 1930s, basically says that stock market prices, underpinned by “investor psychology”, rise and fall in predictable patterns and that these patterns are linked together by waves.

Prechter writes:

> *"The stock market is embarking upon its biggest bear market assuredly since that of 1929-32 and possibly since that of 1720-84. This will not end until the Dow is in triple digits."*

Prechter believes that a return to 1930’s style deflation is on the cards and that *Elliott Wave Theory* predicts that the Dow will return to levels last seen in late 1982.

Should we be concerned by this startling revelation? And could it be that technical analysis really does hold all the answers?

One of the more useful achievements of academia over the years has been the demolition job done on the claims of chartists like Prechter.

Successive studies starting with those carried out as long ago as the turn of last century by mathematician Louis Bachelier have shown that ***past price movements cannot predict future price movements.*** In other words price movements in successive periods happen independently of each other.

If decades of extensive research isn't sufficient proof for you, then consider this. After the 1987 stock market crash, when the Dow was at 2000, Prechter also predicted that the "the great bull market is probably over" and that by the early 1990s that the "Dow Jones Industrial Average would plunge below 400".

Unfortunately, no matter how frequently technical analysis is discredited, successful marketers have managed to ensure that the technique has thrived, achieving an almost religious fervor.

As one observer of technical analysis said, "For a few tens of thousands of dollars you can discover what could have worked until yesterday."

The central premise of the technical analysis school is that markets display identifiable trends. Technical analysts chart price and volume statistics in an attempt to divine the direction of future price movements. They look for discernable patterns such as "head and shoulders" and "reverse head and shoulders" formations, support and resistance levels, combined with chart-picking techniques such as advance/decline lines, put-to-call ratios and momentum indicators. All of these patterns and indicators have been overwhelmingly dismissed by academic research us completely unreliable methods for picking future stock price movements.

In spite of the evidence suggesting that technical analysis simply doesn't work, the lure of the short cut to making money in the stock market is simply too seductive for many less experienced market players to resist. Surprisingly the same is true for many highly experienced players as well.

It never ceases to amaze us how many market professionals will tell us that they are "Buffett-followers" in one breath and go on to tell us about their predictions for the direction of the market using the latest charting technique.

Investors like Warren Buffett, Charlie Munger, Peter Lynch, Lou Simpson, Benjamin Graham who have achieved outstanding investment returns over long periods of time have one key thing in common. None of these highly accomplished investors have used technical analysis in achieving the results for which they are famous.

Buffett of course admits that he did dabble with technical analysis in the early days but only until he found it to be useless.

These investment legends all use common sense business perspective principles. The problem with this approach of course is that it involves taking responsibility for your own investment decision-making.

Therein lies the problem. Most players in the stock market do not want to actually want to have to make investment decisions. They hope that they can rely on black box systems to do the hard work while they sit back and reap the rewards.

Clinging to this fairy tale that you can make money by *avoiding* investment decisions is the fundamental belief that has facilitated the extensive capital erosion that is hurting most market players today.

Believing that they were "investing", most players have actually been gambling with their capital.

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The only way to truly invest is to buy based upon real business value that you believe will deliver wealth to all stakeholders over time.

So if you're serious about being an investor:

1) The first step is to turn off the financial media. It's their job to drive you half mad with fear (or greed, depending upon which theme will sell more papers).

2) Don't waste another minute on technical analysis. If you love it, then do it by all means but don't kid yourself that it will help you make more money in the market.

3) Stop worrying about pronouncements from market "gurus". If they really knew which direction the market was heading in, they'd get on with making money from that knowledge.

4) Before you listen to anyone's view on the market or a stock, find out all you can about that person's approach to the market. Is it rational? Can you understand it? Do you agree with it? Learn to be your own best judge.

5) Finally, spend your time looking for good solid businesses that YOU can understand, run by people who are honest and competent, and that you can buy shares in at a fair price.

Conscious Investor will certainly save you a great deal of time in doing this, and it will also allow you to quantify your investment decision making. Of course no tool, no matter how great, will ever replace your own rational decision-making. Start enjoying the process of making those decisions (it's not only empowering but thrilling and exhilarating).

As Buffett says investment decision making is not easy but if you just make a few good decisions they can set you and your family up for life.

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