

Introductory Lecture Notes

Understanding Financial Chaos Using the Bible

Lecture 3:

**Why Mathematical and Econometric Models are Inefficient
in Capturing Chaos in Financial Markets**



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Our free lecture notes starts from where carnal knowledge on financial chaos stopped!

Though, the notes are free, they are of great benefits to anyone who want to gain Biblical views on chaos theory; and how to use the concept to isolate and avoid financial **disorderliness, roughness, uncertainty, error, and fuzziness** in the movement of prices of stocks, equities, currencies, commodities, bonds, etc, in order to gain profits.

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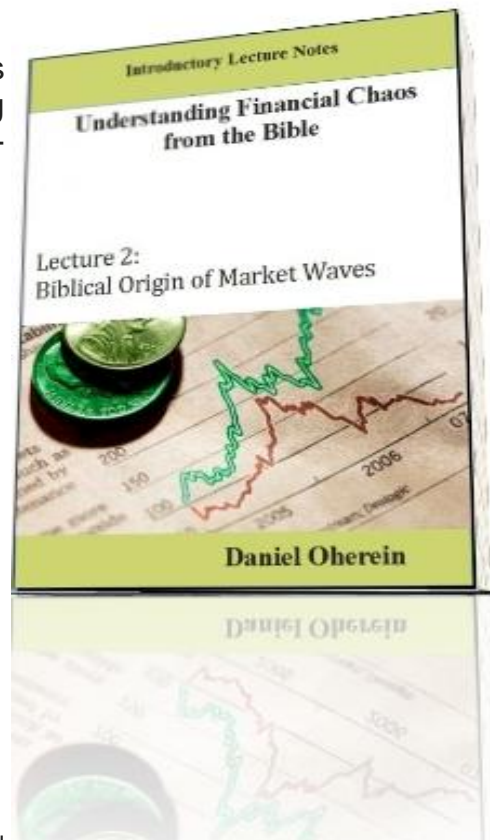
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GO AHEAD TO READ HEAPS OF EVIDENCES OF WEALTH TRANSFER FROM THE 2008 FINANCIAL CRISIS.

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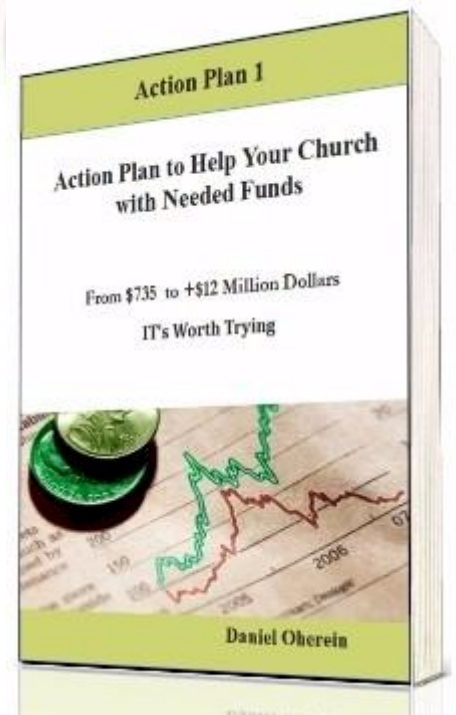
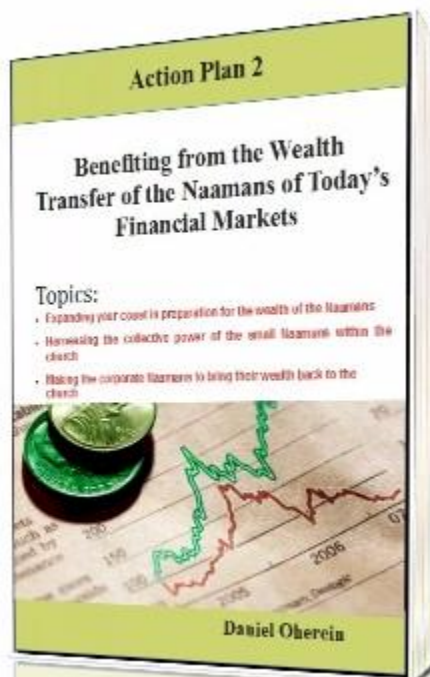
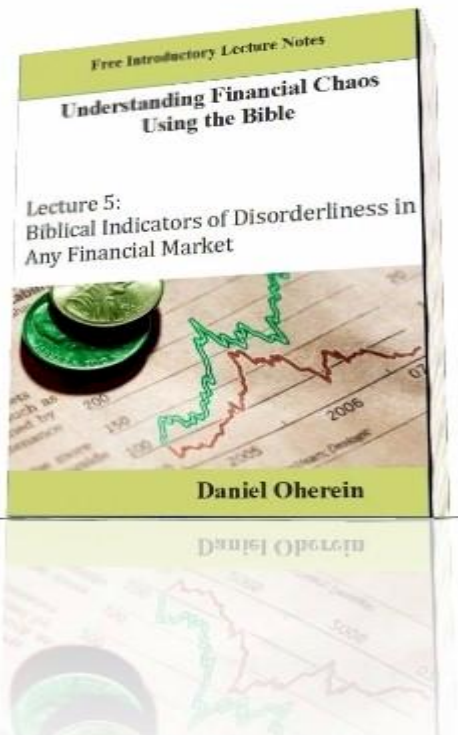
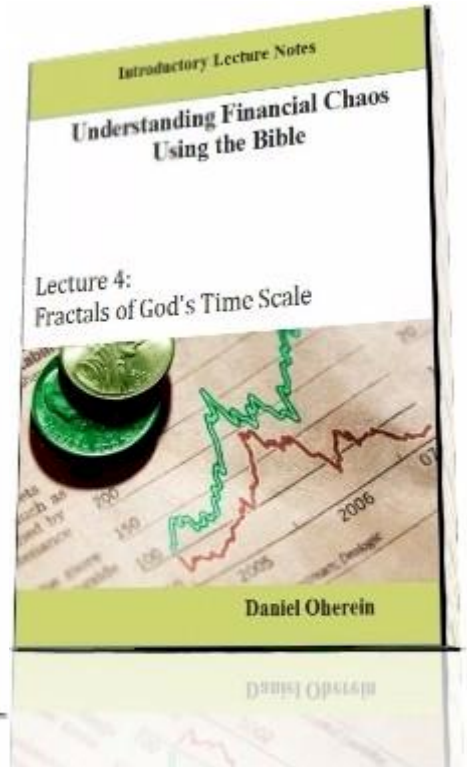
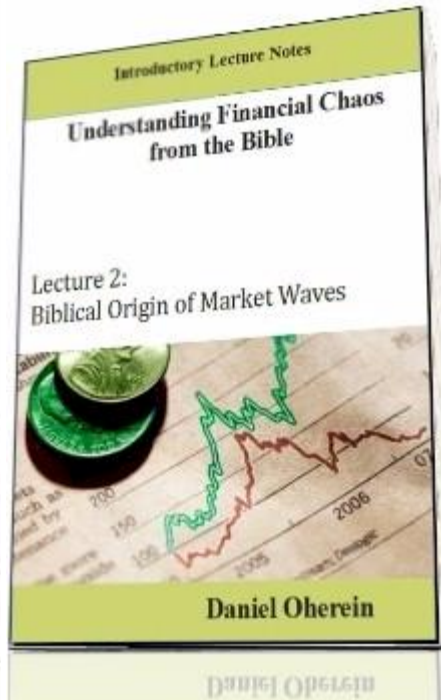
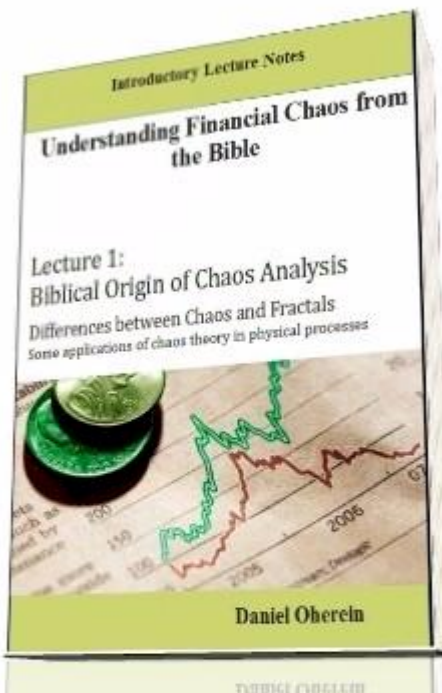


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Why Mathematical and Econometric Models are Inefficient in Capturing Chaos in Financial Markets

One common characteristics of events of nature is that they are artefacts and their fractal spaces are also known or visible because they are permanent, or semi permanent. Thus, it is very easy to use more or less mathematical/statistical models to estimate availabilities, extent and quantities of natural events like mineral deposits, vegetations, hurricanes, lava flows, air masses, etc.

Measuring orderliness or disorderliness in real life situation such as in the case of financial markets poses some challenges until now. The first challenge is what to use as indicators to measure disorderliness of market participants; and the second challenge is how to define or demarcate the space and time on the trading chart where/when to expect disorderliness or reckless behaviours from market participants.

The closest attempts in this regard is the pioneering works of **Mandelbrot a professor of mathematics at Yale University** to use fractal geometry to predict stock market prices, though, has not been successful, nevertheless, Mandelbrot acknowledged that econometric models are also inappropriate for studying stock markets. What Mandelbrot suggested or is hoping for, is a technique that would allow one to begin to find ways of measuring or detecting market moods - when market is **rough, angry, stormy, volatile**, etc, that leads to massive swings and spikes, or when market is smooth, calm and predictable.

Biblically terms like rough, anger, stormy, volatile events are unrighteous that God warns us to avoid at all times as they may create or lead to chaos, fear, panic, greed, in our hearts.

Mandelbrot's approach is greatly influenced by his works in applying fractal geometry to a wide variety of fields. His book "*The Fractal Geometry of Nature*," a 1982 book on the continual reappearance of fractals in nature, which made him famous observed fractals in trees, clouds, numerous patterns that we see in daily life. Mandelbrot's approaches of using fractal geometry in this way though, seem to be the closest breakthrough, however, the missing links is in the interpretation of the outcome of fractal events of natural processes.

One common characteristics of events of nature is that they are artefacts and their fractal spaces are known or visible, permanent, or semi permanent before applying abstract mathematical equation. Thus, it is very easy to use more or less mathematical/statistical models to estimate availabilities, extent and quantities of natural events like mineral deposits, vegetations, hurricanes, lava flows, air masses, folded and faulted landforms, etc.

As you will see later, the issue is not so much about measuring the volatility or mood of market participants that can lead to massive swing or spike in prices, but it is about whether such actions or behaviours or motives or moods are righteous or unrighteous; or whether they are in agreement with TIME set for them to occur by God. Any mood or action or the so-called crowd behaviour that is not in line with God's principles of investing is actually what we are looking for in order to isolate them as disorderliness.

The goal is to shift the focus away from price volatility but on whether actions of market participants are Biblically righteous or evil. Any crowd behaviour that is not righteous can only be reckless, evil and disorder, and as a result it must be avoided since it is not in line with God's principles.

For example, the image below shows areas where behaviours of market participants were irrational or unrighteous because they were trying to sell or take harvest from the market when it was not due seasons of harvesting. By relying on the Bible to interpret trading chart depicting behaviours of market participants help us to avoid temptation, deceit of partaking part in unrighteous behaviour. Once spotted we close out our investments, or simply ignore such behaviour by not closing out the investment in panic because of our insight knowledge of when to sow and harvest (Genesis 8:22).



The interest is not to predict when irrational or unrighteous behaviour will start in order to partake in the market, but to weigh every crowd behaviour against due time and season to perform such activities. If there is no alignment between behaviours of human beings and due time/season fixed for such behaviour by God, then market participants are UNRIGHTEOUS by not following approved time and season by God for example, time to sell or buy.

In the above image took the entire market cycle and looked at its internal structure defined by time and season fractals, and watched the activities going on in each of the fractal in relationship to the season or the entire market cycle itself. Actions not fitting to what we ought to be doing in the overall cycle or season is regarded as irrational. For example in the month of July there was irrational crowd behaviour of taking profit or harvest (panic selling). Since this is not a due month for harvest or profit taking, it is irrational on the part of market participants to be harvesting in July.

To avoid problem in this type of market you either stay away from panic selling, or you stay put in your buy position irrespective of what the crowd is doing since market will go up anyway.

Most irrational crowd behaviours are triggered by mathematical/statistical models traders employ to forecast markets as if they are dealing with solid surfaces while in real life we are dealing with human beings who are supposed to be guided by rules and commands of God. One of such commands upon which fractal concept is based is the Law of the Sabbath.

"For six years you are to sow your fields and harvest the crops, but during the seventh year let the land lie unplowed and unused. Then the poor among your people may get food from it, and the wild animals may eat what they leave. Do the same with your vineyard and your olive grove." (Exodus 23:10-12)

God further went on to break this down into fractals:

"Remember the Sabbath day by keeping it holy. Six days you shall labour and do all your work, but the seventh day is a Sabbath to the LORD your God. On it you shall not do any work, neither you, nor your son or daughter, nor your manservant or maidservant, nor your animals, nor the alien within your gates. For in six days the LORD made the heavens and the earth, the sea, and all that is in them, but he rested on the seventh day. Therefore the LORD blessed the Sabbath day and made it holy." (Exodus 20:8-11)

This created minor (fractal) cycles inside a 6-year cycle, which in turn have fractals of months, weeks and days each with specific time to sow and harvest. Thus, when you are selling at the middle of the year, in a year or season of sowing, this is irrational since it is not the end of the year. Most mathematical model do not interpret whether signals to buy or sell are due in the right or wrong seasons so as to advise speculators accordingly.

From the image below, showing market structures of EUR/USD from January to end of November, 2009, though, market might seem to have been very rough from line A to Z, such roughness in buying cannot be used as a measure of unrighteousness.

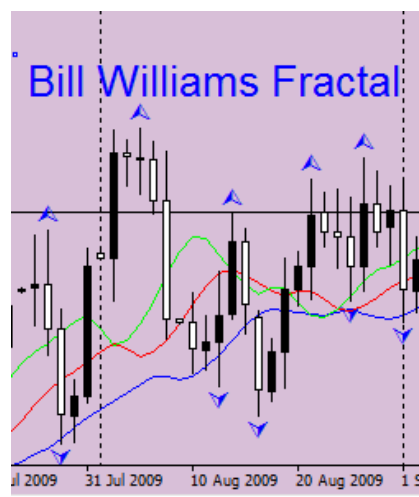


In other words, though markets could sometimes be rough but yet righteous according to its due season to buy. Also mathematical models or indicators might present smooth surface (curve) or signal to sell, yet such sell might be unrighteous as in the case of surface 1 to 2 in the above diagram. Even points Z to ZZ that shows a relative smooth surfaces might actually be irrational behaviour if we view 2009 market cycle within the context of 6-year cycle of sowing until the 7th year.

Even some of the most popular chaos and fractal models like that of Bill Williams (see image below) are incapable of telling which actions of market participants are rational and irrational Biblically. The figure below is a classic example of Bill Williams chaos model showing good selling opportunity in July, but without further instruction on whether such selling opportunity is right at due time or not in the months of July and September respectively.



Since mathematical models are unable to isolate what is RIGHTEOUS or UNRIGHTEOUS buy or sell, most people usually will enter market following crowd behaviour only to find out that they made wrong investment decisions of blindly going along with the crowd. This create whipsaws and stampede as people rushed in and out of markets due to chaos or confusion.



Following mathematical models without Biblical wisdom is like what is written:

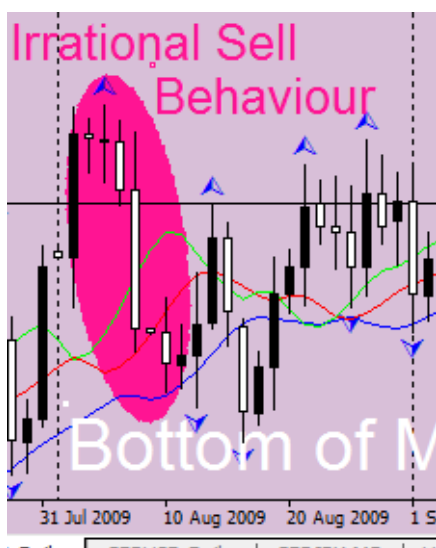
*“All the counsel you have received has only worn you out! Let your **astrologers** come forward, those stargazers who make predictions month by month, let them save you from what is coming upon you” (Isaiah 47:13).*

This is true if you think of 1000s of statistical /mathematical models that has come and gone since the last Great Depression, in 2009, we still do not have reliable method that can produce consistent results all year round.

A Bible student on the other hand, will first seek for RIGTHEOUSNESS of the indicators (mathematical or statistical models) relative to due season of sowing and harvesting before making any investment decision of whether to harvest or sell along with the crowd, or hold the investments until the right season.

Trading chaos in this way is like life full challenges or temptations of whether to join the crowd when they are partaking in unrighteous practices or not. As you make attempt to SEEK for RIGHTEOUSNESS and abide in it, you will see things differently form the rest of crowd. When unbelievers are anxious or greedy, or gripped with fear, panic, pride, anger, self pity, revenge, recklessness, disorderliness, losses and ruins, you will be at peace with yourself and with your trading chart for it is peace in your mind as commanded by Jesus Christ in John 14:27 that you need to defeat market demons.

I hope this technical note has blessed you abundantly on how you can use the Bible to speculate chaos in the financial markets much better than statistical/mathematical models. As defined elsewhere, chaos theory as a method of solving complex problem is concerned with isolating chaotic behaviours or events from a system in order to harness its stability. That is, it is concerned with the isolation of **disorderliness**, or **roughness**, **uncertainty**, **error**, and **fuzziness** in any system and treat such disorderliness as unprofitable events that must be avoided in order to save cost.



In the above diagram taking part in sell behaviour in the eclipsed period of uncertainty above is unrighteous because it is greed more so when you know it is wrong to do so. It becomes reckless, when you continue to add more lot sizes to your position or even try to hedge your trade.

Hedging of funds is one of the greatest financial sins people commit in market speculation. It means you lack trust in God's Word that said SEEK first RIGHTEOUSNESS. This is because of you are right your outlook you will not hedge.

I released this technical note for you to be to able heal and deliver other souls from financial sins. Don't hold it back, spread the message out abundantly. The more you give, the more people shall come to know how to apply the Knowledge of Jesus Christ in the financial markets through you.

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