ArmstrongEconomics
researching the past to predict the future

United States - Abu Dhabi - Beijing

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NYSE - Boom or Bust?

By Martin Armstrong

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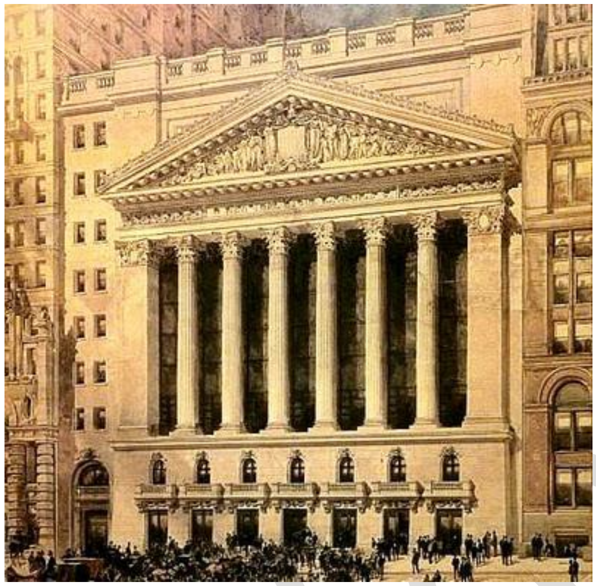

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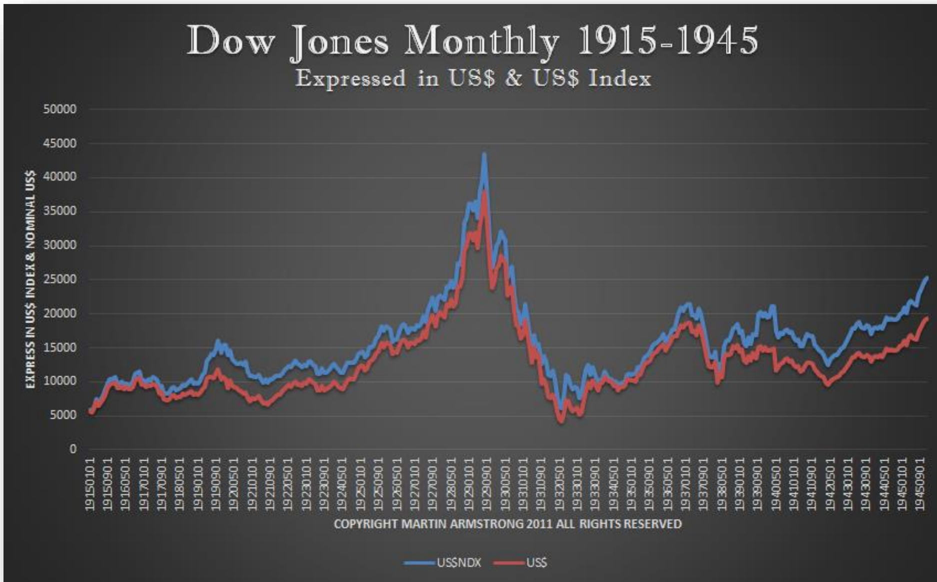
The most astonishing aspect of the bull market in the US share market is the wholesale belief that it must crash. They have been talking about this since 2010. This has been the most distrusted rally in the entire history of the US share market. There have been countless forecasts on how the stock market will plunge 70% to 90%. Now that we have achieved the January 2018 high, this will become darker.

There are always corrections, but are we really talking about a crash, correction, bull trap, or a breakout? Over the past few years, numerous economists and so–called experts have claimed an imminent collapse. Headlines across the nation have deemed the market overvalued, often comparing it's direction to the Titanic setting out on its final voyage.

The problem with this type of opinion analysis stems from its myopic domestic perspective. We simply **MUST** look at all markets from a truly global perspective for capital is rushing around the world in search of safety right now, whereas during 1980–1990 it was mostly flowing based upon profit.

We can look at the Japanese Nikkei index going into 1989. Why did a bubble form in Japan? We can see that the Nikkei index rose to test the 40,000 level in December 1989, which was a perfect 86-month rally on the Economic Confidence Model (ECM) frequency from the October 1982 low. This bubble even peaked on target with the ECM peak of 1989.95, which was then followed by an 8.6-year target in 1998.55 that produced the collapse of Russia. Additionally, 2007.15 was the peak in real estate even to this day.

When we look at the Nikkei in terms of US dollars, we can see that the foreign investor made more money percentage-wise than the domestic Japanese investor. This illustrated the importance of a global view. There would never have been a bubble in Tokyo if it was not attracting capital from around the world.



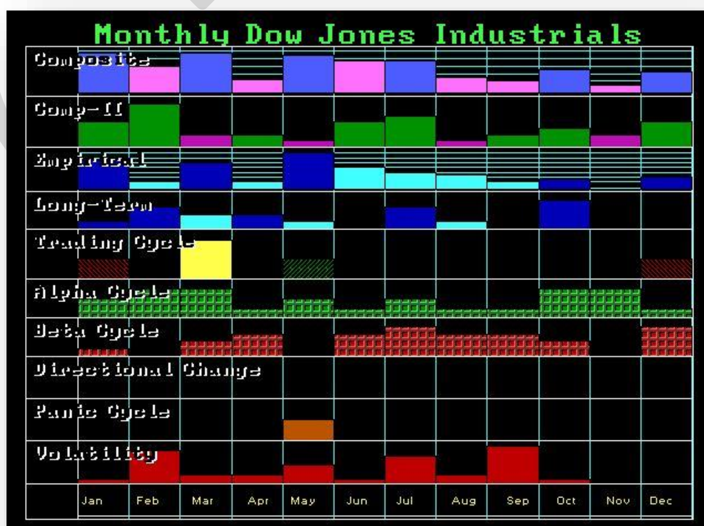
As a direct result of both World War I and World War II, capital fled to the United States. That capital inflow created the bubble in the US market going into 1929. In terms of international currency, the Dow outperformed the domestic investment virtually throughout the period of 1915 to 1945.

If we look at the Dow Jones Industrial Index currently, we can see that the 2016 high in December of that year was a run-up in euros of 93 months, whereas in nominal terms the high was January 2017, or 94 months up. Applying the very same technical analysis using the same chart points, we can see how the Dow broke out in euros, whereas not yet in nominal terms at that moment. This illustrates the difference once again in international viewpoints. Foreign capital inflows have

boosted the Dow compared to domestic buying. This is why the Dow led the way up.

Everything has its time and place. In this respect, we must comprehend both history and the present in terms of domestic currency interacting with the global economy. Everyone will act according to their own self-interest. That is critical to understand for therein lies the difference between rallies and booms as well as corrections of going bust. **TIME** is absolutely everything. The persistence of time and how it becomes a regular beat is paramount to grasping the future and the risks it brings our way.

Therefore, from a timing viewpoint, the bull market run from 1921 to 1929 was 97 months. In April 2017, we reached 97 months from the March 2009 low. The January 2018 high was 106 months. What appears to be shaping up is a profound Cycle Inversion on a grand level. That was also the reaction low in the yen into April 1990 from which the yen soared in deflation for 60 months. Now 2017 was 43 years up from the 1974 low, which was 42 years from the 1932 low. However, 2018 will be 86 years from the 1932 low. It is also a Panic Cycle Year.

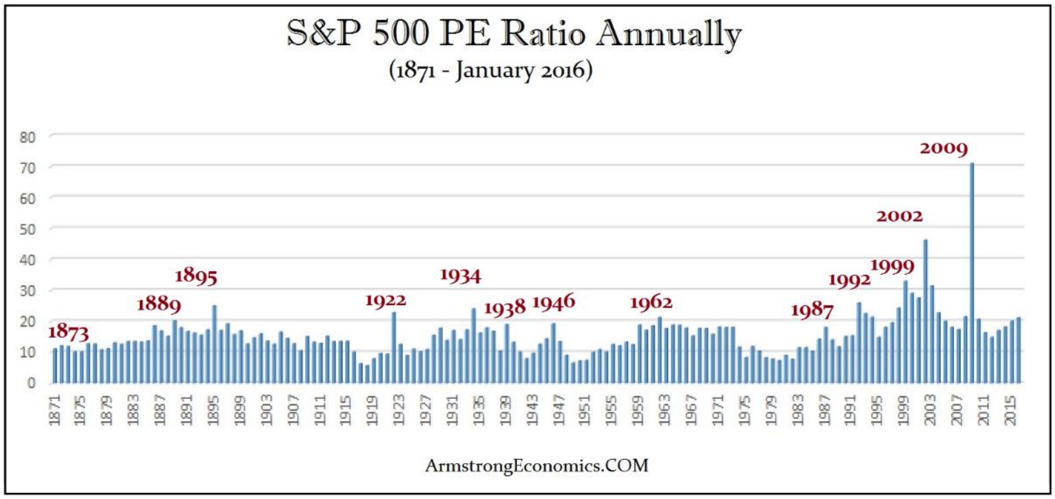


Our forecast for a January high seems to have come into play after reaching 261671. Since February is a clear target for a potential turning point with high volatility, then we have March as a turning point, as well as May which is also a Panic Cycle on the Monthly Level. Exceeding the January high implies we may not be dealing with a serious correction from a 2018 high. Our target resistance we gave back in October 2014 as 25000–28000, which we entered reaching 26,616.71. With 2018 being a

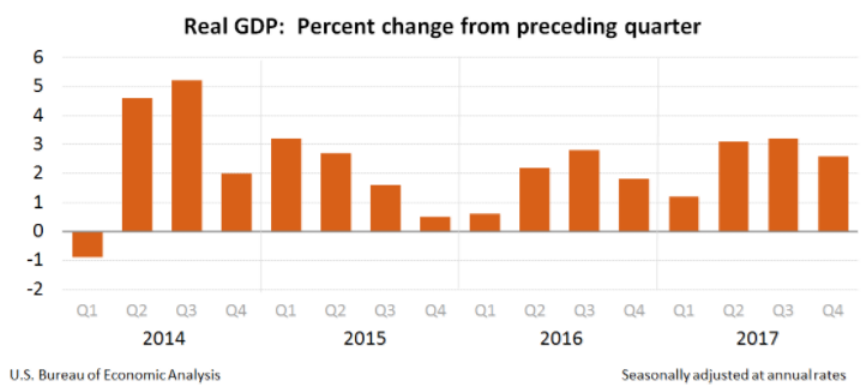
Panic Cycle Year, there is the risk of a 2020 low extending the rally out into 2032. This would be indicated by electing a Monthly Bearish Reversal, penetrating last year's low of 19,677.94, and a monthly closing below 19,138.79.

The extent of bearishness has been unheard of for the entire scope of this bull market for the past 106 months. The cries to **sell everything** are simply shocking. We have seen Wall Street analysts with a constant bias against the stock market since 2010 perpetually calling every move the final high.

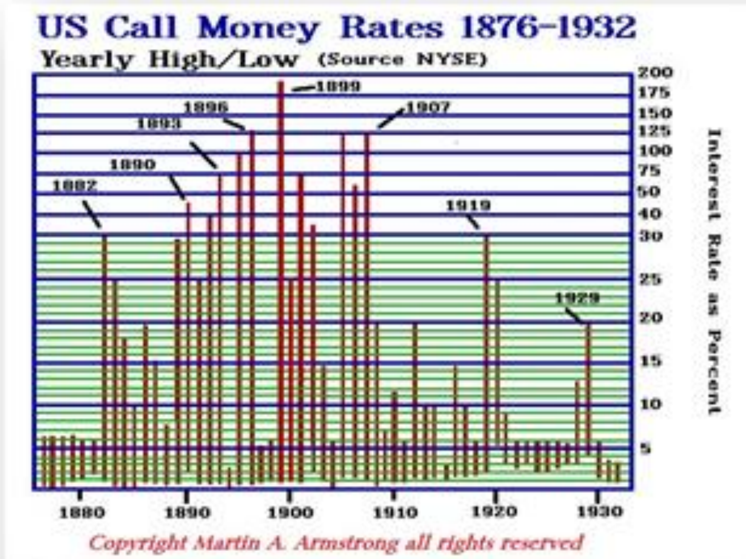
Others tout that the driving force behind the stock market is always earnings. They claim if earnings decline, the stock market must crash. Still others tout that the total market cap of US stocks, as measured by the Wilshire 5000 index of all NYSE and NASDAQ listed companies based in the US reached 150.8% of Gross Domestic Product (GDP) on January 26, 2018. Historically, these pundits assert that the US stock market has become a bubble when its total market cap surpasses 100% of US GDP so they have been bears for most of the way up.



US stocks become extremely undervalued, according to them, when their total market cap falls to below 41.47% of US GDP. Of course, this analysis goes back only to 1971. Yet are they correct or just trying to create a very simple rule to buy or sell? When we run our models on the PE Ratio back to 1871, we can see that the peaks come during panics, not highs.

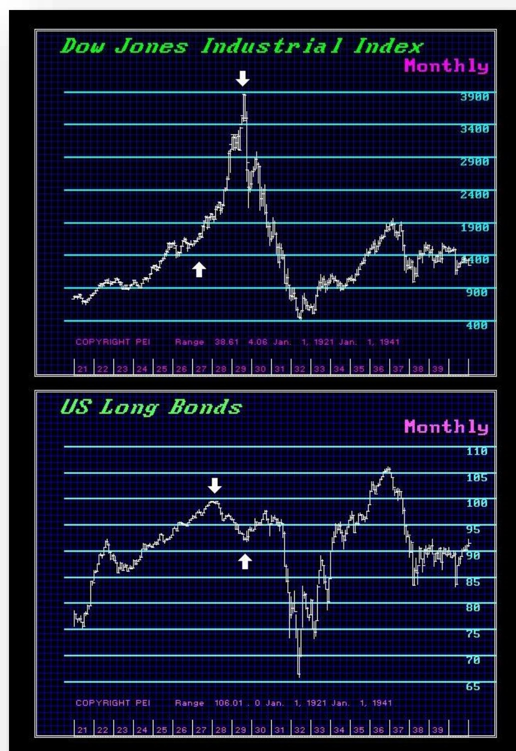


Still, other analysts point to NYSE margin debt claiming it is now up to $642,798 million as of December 2017 million given the GDP was $19,738.9 billion or about 3.07%. Historically, they maintain, the US stock market has become a bubble when NYSE margin debt surpasses 2% of US GDP. US stocks become extremely undervalued when NYSE margin debt falls to below 0.5% of US GDP. Again, this analysis is based only back to 1960. They have never looked beyond that historical time-frame to see what happens during war or real bubbles. They also have no clue what happens when confidence in government declines. This is based upon a period when buying government bonds was considered conservative. We can see that GDP growth is down from 2014 levels.

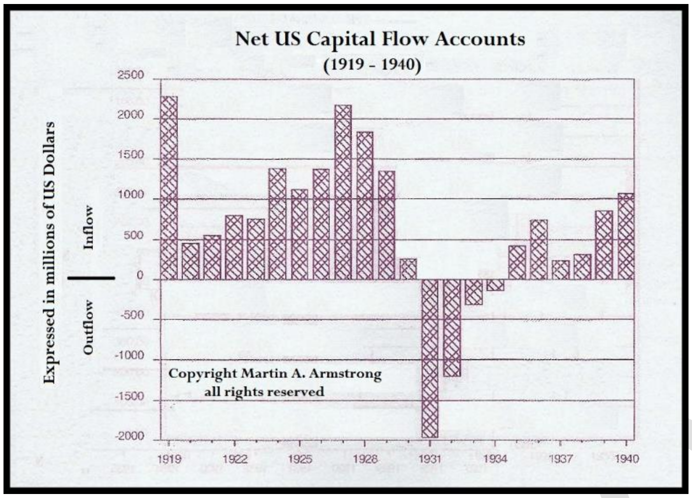


The same problem with faulty analysis exists with those who scream loudly about the simple direction of interest rates. If interest rates rise, they maintain, the stock market must fall. This has been the excuse applied with the immediate decline from the January 2018 high. A simple look at call money rates from the NYSE will quickly reveal that there is no empirical level of interest rates that results in a market high. It is always a question of the current rate of interest compared to expectations of future profits. As long as there is a spread, borrowing will not be impacted by a rate hike until it is no longer profitable to borrow relative to expected profits.

The biggest rally into 1929 took place with the lowest peak in interest rates (see call money chart) – not the highest. We can

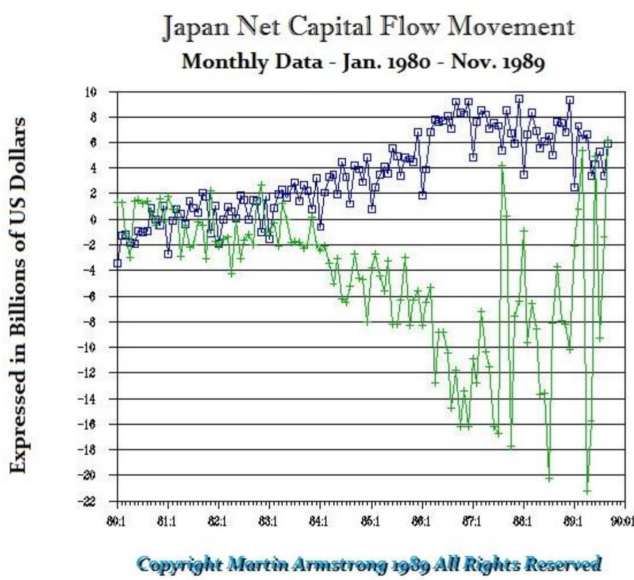


easily see that the Dow doubled 1927 into 1929 along with interest rates. The bond market declined and stocks rallied. When the debt crisis hit in 1931, both fell together.



Global capital flows pouring into the USA post–World War I created the bubble into 1929. The higher the interest rates moved, the more foreign capital was attracted to the dollar. The Fed really could not control the economy or the markets with the idea of influencing capital with interest rates.

Capital flows are everything. They defeat the very concept of Marxist–Keynesian power of government to manipulate the economy. If capital is rushing around the world, this means that central backs cannot truly manage the domestic economy. Therein lies the treat which we face going forward. Once the **GENERAL** public becomes aware that government can no longer control the fate of the nation, everything will turn significantly chaotic.



Here is the capital flow perspective during the 1987 Crash. You can see the wild gyrations of capital movement during a panic. Look at how the capital flows went crazy thanks to Jim Baker and the formation of the G5 trying to reduce the USA trade deficit by saying they wanted the dollar down by 40%. All the US assets bought by the Japanese would suddenly be worth 40% less. The easy solution – **SELL EVERYTHING IN DOLLARS!**

Selected trends closest to April for each year, from Gallup's annual Economy and Personal Finance survey

Then there are those who yell that stocks and mutual funds now account for 25.39% of US household net worth. Historically, they claim, the US stock market has become a bubble when stocks and mutual funds account for more than 22.68% of US household net worth. US stocks become extremely undervalued, they maintain, when stocks and mutual funds account for less than 9.53% of US household net worth.

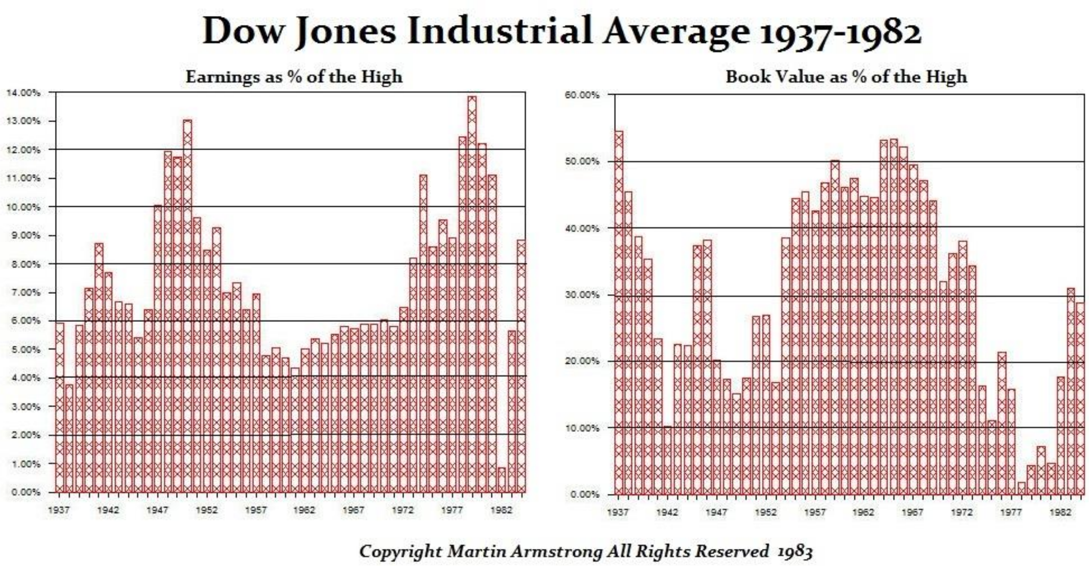
Once again, this analysis is bogus. They look at the gross levels of market value and household income, but do not distinguish between foreign and domestic investors. They simply attribute everything to domestic buyers. If foreign investors pour money into the USA, that ratio will rise without Americans buying anything. In fact, this cannot be reconciled with the recent Gallup Poll in April 2017 which showed that 54% of Americans own stock. Prior to 2008, Gallup Polls revealed at that 62% of U.S. adults owned stocks.

Then there are the psychological levels like 10,000 and 20,000 that become real factors that seem to shake up in confidence. Here is an analyst report from 2000 (name omitted), calling for the crash back then because the market reached 10,000. People always call for the crash of all time.

March 2, 2000

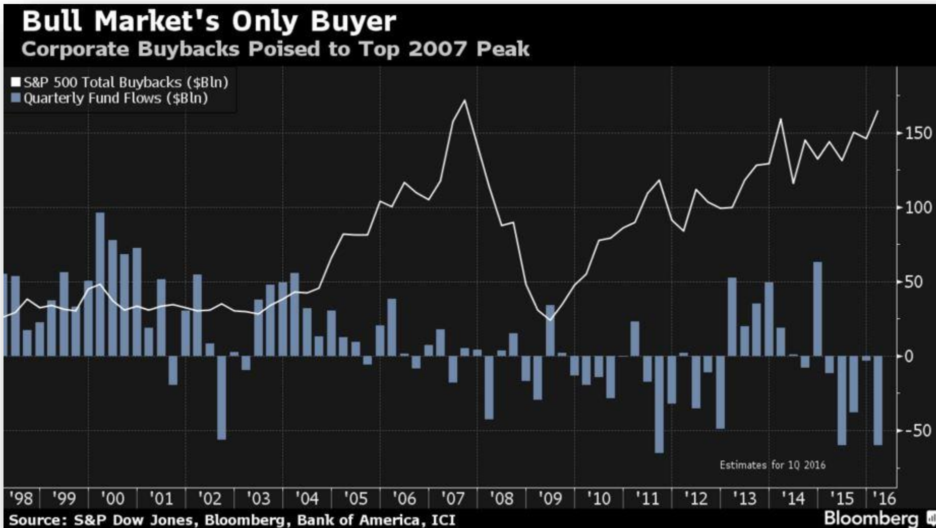
The Dow Jones Industrial Average is now trading at a level of 10,000. Some believe that it is hugely over–valued, that we are in a bubble, and that a big correction is overdue. Others believe the contrary that it is actually undervalued and should continue to go higher. Which school is correct? Let's examine the arguments and then you can be the judge.

The Dow average now stands at about the 10,000 level. If the stock market corrects, what level of support should we expect. Well, if the Dow were trading at valuations that prevailed from 1926 through 1994, it would now be at about the 6,000 level. If it were selling at valuations that prevailed at the beginning of this bull market in 1982, the Dow average would be at the 4,000 level.

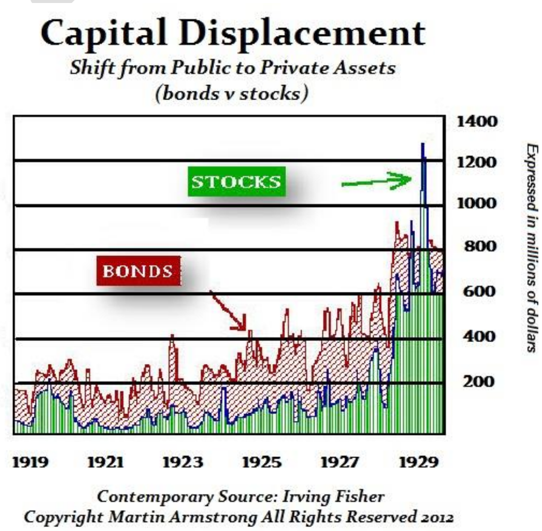


During the 1980s, I showed these charts demonstrating that the Dow was severely undervalued as the Private Wave began in 1985 in the Economic Confidence Model. We forecast that the Dow would exceed 1,000 and rally to 6,000. Many thought I was nuts. Of course, I was then accused of starting the takeover boom when the market did take off because I was showing these charts around the world.

Why was I blamed for starting the takeover boom? Yes, I advised a few of the takeover players, but they did not act simply because I said so. The chart on book value illustrated that you could buy a company, sell its assets, and more than double your money. Clearly, the US share market was severely undervalued. Today, the book value of the Dow Jones Industrial Index is 5799.91, when it was 19827.25, which is currently at 29% still well below the 1965 high of 53%, which failed to exceed the 1937 high of 54.5%. The current 29% is by no means indicating a severely overbought situation at this moment.



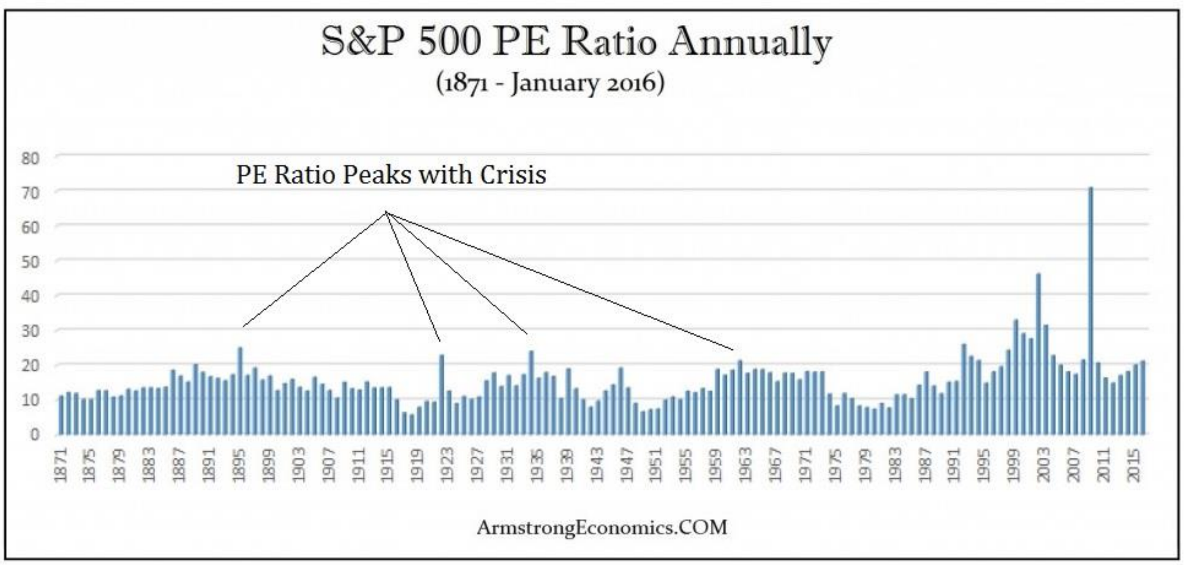
Yet, still others point to the trailing 12 month share buybacks of S&P 500 companies citing that they are now equal to 54.24% of their free cash flow. They track this back to 1990 and fail to mention that in 2007, this indicator reached 160%. Instead, they argue it has become a bubble when share buybacks of S&P 500 companies surpass 43.65% of their free cash flow, yelling its 54% right now so doom and gloom is here.



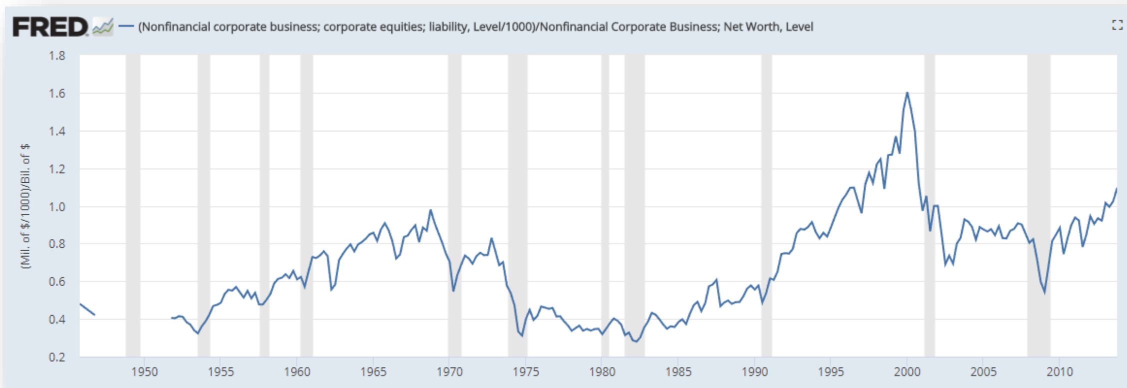
As they say, timing is everything for even a broken clock is correct for one second twice a day. These forecasts that are posted all over the web are predicated upon personal opinions that attempt to extrapolate history and overlay it upon current events with absolutely no comprehension whatsoever of how the world economy is interacting at that moment in time.

Yet in 1929, there was such a shortage of stock because of mergers and buy-backs, that you could float just about anything. Only at the high did new issues of stock brief exceed new issues of bonds. It was Andrew Melon who famously said when the market began to crash, "Gentlemen buy bonds." However, even the bonds crashed in the Great Depression

We also hear a lot about earnings. Much of this analysis is centered on select periods of market behavior that are indicative of normal market activity when there is more confidence in government than in the private sector. The whole premise behind earnings negates the concerns over why Trump won, BREXIT unfolded in Britain, not to forget the votes in Catalonia and Italy. This data analysis is far too short–term to capture what happens when confidence in government, not corporations, is the problem. You simply must go back to the Sovereign Defaults of 1931 before you can make any assertion worthwhile.



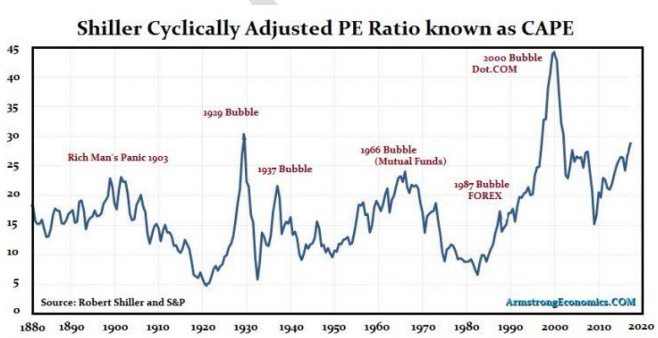
When we look at the PE Ratio, we can see that the historic high was by no means the peak in the market price. The highs were 1895, 1923, 1936, and 1963 and 2003. These highs were not the peak in share prices, but followed capital flights during panics. The peak in the PE Ratio historically was 2009, which was the bottom of the crisis. This demonstrates that the biggest rallies in share markets are not due to earnings or economic booms. They unfold when money is looking for a place to park. Hence, analysis that is either bullish or bearish based upon earnings only produces inconsistent signals. If confidence in government collapses, as we are witnessing on a political level, then we are more likely to see a rising PE Ratio as more and more capital flees government bonds and economic growth continues to stagnate.



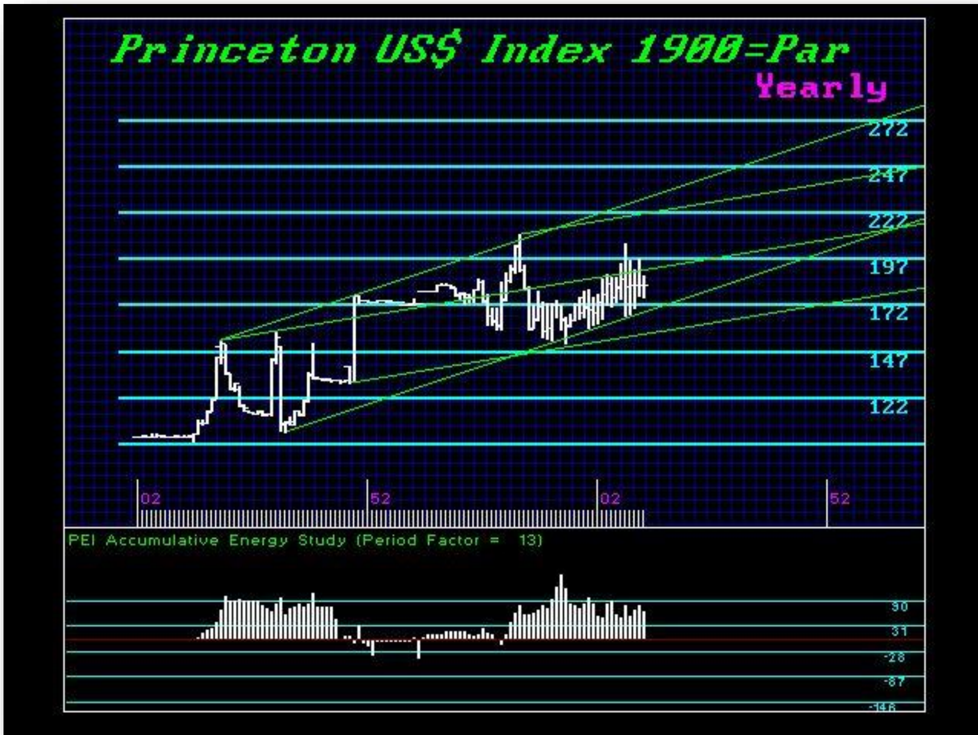
Then there is Tobin's Q, which also shows that the U.S. share market is by no means overvalued by any historical reference. The definition of Tobin's Q ratio is simply the ratio of the market value of a company's assets (as measured by the market value of its outstanding stock and debt) divided by the replacement cost of the company's assets (book value).

$$\text{Q Ratio} = \frac{\textbf{Total market value of company + liabilities}}{\textbf{Total asset (or book) value + liabilities}}$$

Others look at a cyclically adjusted price/earnings ratio, otherwise known as the CAPE, or Shiller PE after Robert Shiller who popularized it. CAPE measures the price of a company's stock relative to average earnings over the past 10 years to smooth out the economic and profit cycles intended to give a more informed view of a company's price than the traditional price earnings ratio. We also do not see an overvalued market in terms of CAPE.



The Shiller Cyclically Adjusted PE Ratio known as CAPE is a particular PE ratio invented by Robert Shiller of Yale University. Unlike his index on real estate, this one tracking the period of 1870 to date is not very good. True, you will arrive at one of two conclusions that either the CAPE today is near the same level as in 1929, or it is higher today than it was just before the Panic of 2008. Does this really mean anything? Absolutely not!



When we filter this purely domestic view through the currency and capital flows, these two events are exactly opposite of each other. In 1929, the capital inflows were pouring into the USA whereas in 2008 then were exiting. The 2000 Dot.com Bubble took place with a capital inflow.

Plaza Accord - September 22, 1985

The important difference in analysis is always the currency. Great bubbles unfold only when foreign capital is pouring into a domestic market. This is when the Japanese Nikkei Bubble took place in 1989 similar to what happened in 1929 in the States. The capital left the USA

as the Plaza Accord was pronouncing that they wanted the dollar down by 40% to help trade, which created the 1987 Crash and a capital flight from the States. The swing in capital back to Japan looks like the brain wave of a crazy person, but that resulted in the 1989 Japanese Bubble.

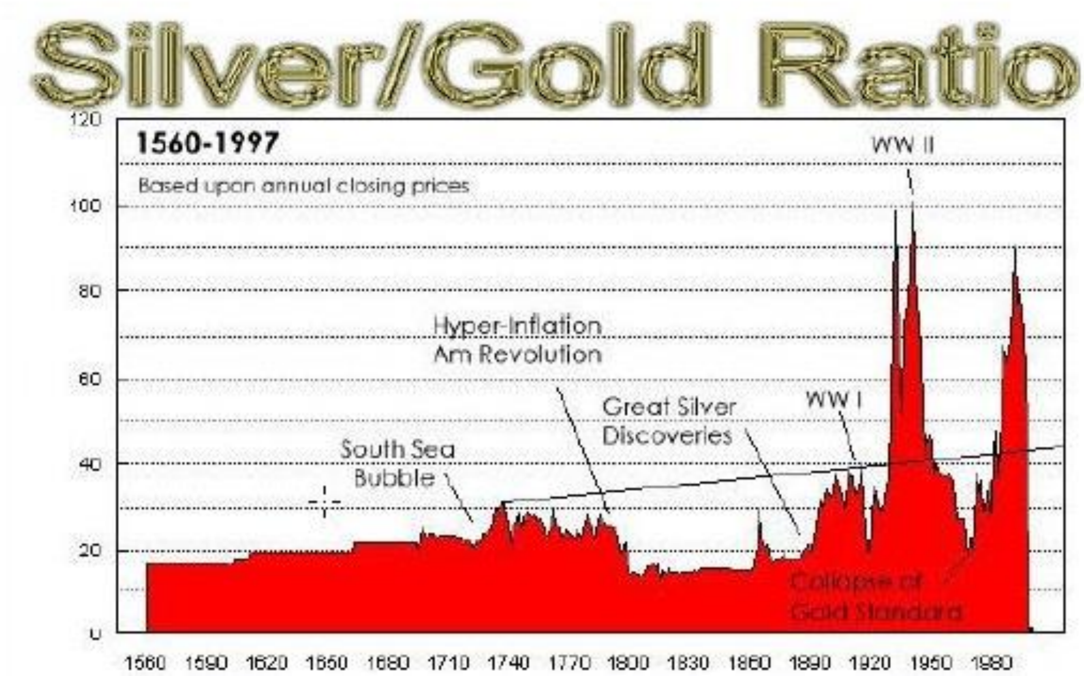
Overall, the majority of analysts merely share the same rudimentary concepts rooted in Marxism and Keynesian economics that is driving the strategies of the central banks. Mario Draghi subscribes to the same theory that if he just keeps buying 80 billion euros in government bonds or junk corporate bonds every month, sooner or later inflation must appear. After 10 years of that policy, even Draghi has had to admit it completely failed.

All these prognostications have fallen completely to the ground covered in dust, for the **Quantity of Money** theory is like being only half pregnant. Quantitative Easing has proven one spectacular fact – the Quantity of Money Theory is simply dead wrong. Increasing the supply of money does not guarantee that people will spend it. If they fear the future, they will hoard the money even as the evidence from Roman times establishes. Hoards of the 3rd century coinage exist of the debased coinage as well. This idea that the people would hoard the high-grade coins and spend the lower grade debased coinage also utterly fails against the evidence.

Hoard of 52,000 Roman Coins
3rd Century AD discovered in Britain 2008

One of the largest hoards discovered was that of 52,000 debased Roman antoninianus. The hoard was discovered in a clay pot in Britain during 2008. This idea that people would only hoard gold and silver pales in the face of the evidence. When the stability of the government came into question with the barbarian invasions, people buried even the debased coinage.

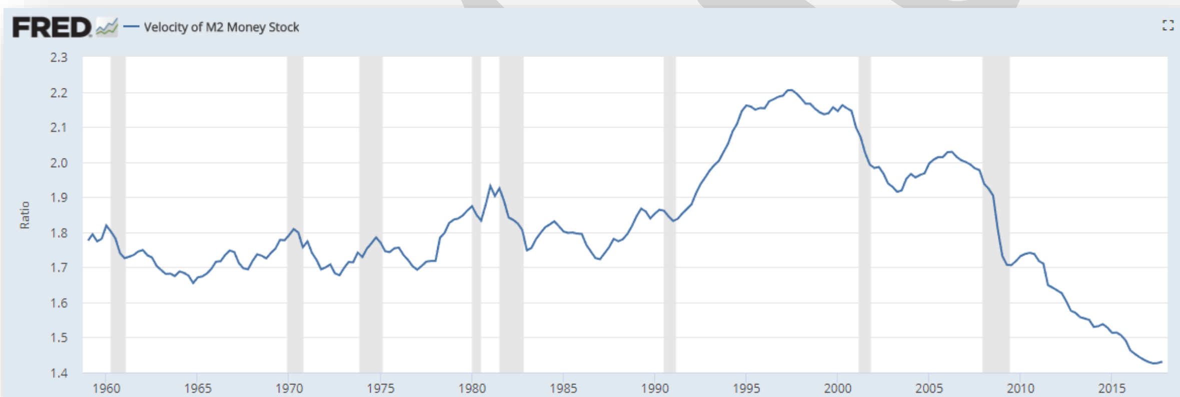
The theory of **Quantity of Money** has been seriously lacking in its comprehension and scope of how the economy functions driven by the sheer level of **CONFIDENCE**. This is also why the central banks are in serious trouble and the European Central Bank (ECB) is insolvent by its own standards. In fact, it is now the largest holder of government debt of all members of the Eurozone.



Like all these relationships, the one common denominator that causes their doom is the simple fact that no relationship that is ever constant. Absolutely everything fluctuates. It is like the silver/gold ratio. Here you have two metals that should move in harmony theoretically, but certainly do not. There is not even a direct 100% relationship between the quantity of money and inflation.

The Quantity of Money theory behind the idea of inflation has been unbelievable in its lack of actual investigation to prove its validity. The theory only uses one–dimensional concepts. Nevertheless, this is the theory that central banks employ and colleges still teach. Politicians and the press believe this remains true without any veracity or definitive investigation. **Monetarism** is an economic theory that focuses on the macroeconomic effects of the supply of money and central banking. This was formulated by Milton Friedman (1912–2006), who argued that excessive expansion of the money supply was inherently inflationary, and therefore, governments should focus solely on maintaining price stability. But is this true? Could this be attributing economic trends solely to the supply of money while ignoring other dynamic factors that are essential to the entire system?

Sir Thomas Gresham (1518–1579) worked in Amsterdam and witnessed the impact of Henry VIII (1509–1547) debasing the coinage of England three times after dropping from 92.5% silver to 50% and then to 33%. He later advised Elizabeth I (1558–1603), which is when he established what has become known as Gresham's Law – **debased (bad) money drives the older (good) money out of circulation**. However, embedded within this saying is something seriously ignored. People assumed that debasing the currency leads to instant inflation. Gresham's observation was made by working on the exchange in Amsterdam. Government sold their debts on the market and then began to debase the coinage for repayment. What is missing here is that coins traded on content, not sovereign declaration of value internationally. As Henry VIII debased his coins, they were being discounted in Amsterdam.

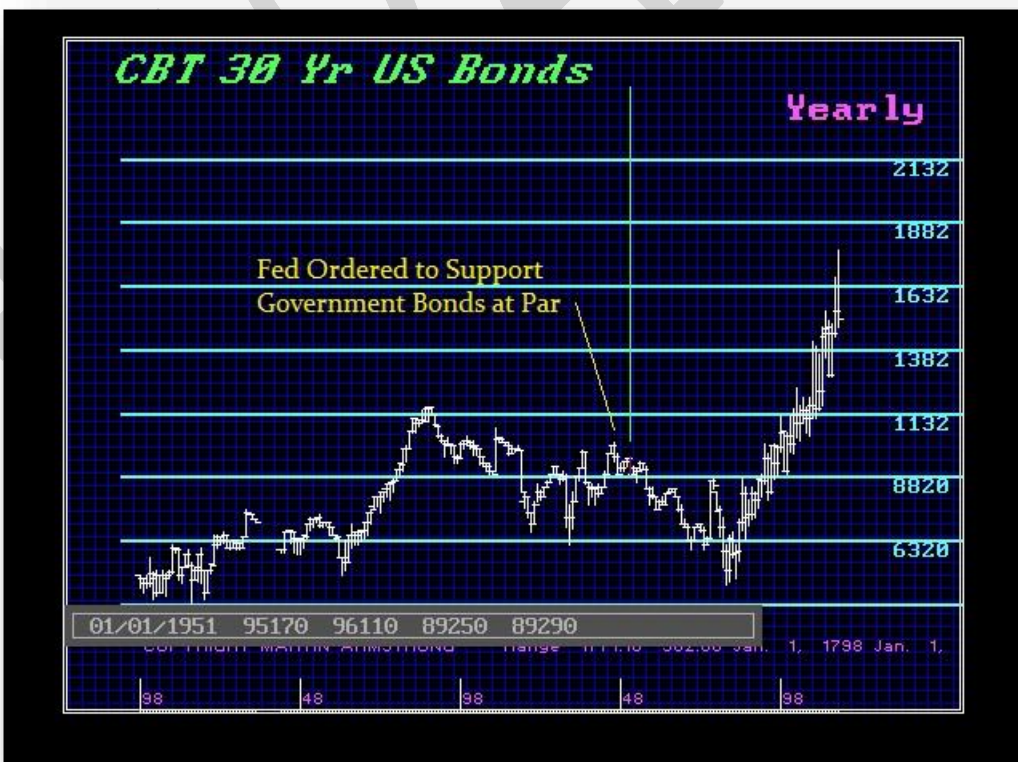



Sir Thomas Gresham (1518-1579)

What Gresham is actually saying is that debased money **drives out** the older high–quality silver coinage from circulation. However, there is a twist to this concept. This statement is actually describing the interesting reality of **DEFLATION**. How can debasing the currency create deflation? Because the older currency is hoarded and thus the **VELOCITY** of the money supply declines as money is hoarded and the available supply circulating shrinks. This then causes the government to debase the currency even more in a desperate attempt to make ends meet because economic activity is collapsing with the velocity of money within the economy.

We must come to face this overlooked factor that debasing the money caused the *opposite* impact as people hoarded the older money thus shrinking the money supply. Velocity is measured by dividing the GDP by the supply of money to determine how many times the money changes hands. As people hoard money, the velocity declines with recessions and depressions.

Consequently, it is now time that we must review how we are attributing everything to the Quantity Theory of Money as if this is all we need to predict the future and manage the economy. Hence, central banks have desperately tried to increase the money supply and lower interest rates to negative rates to punish savers. This resulted in people withdrawing more cash from banks, hoarding, and thereby collapsing the velocity of money. Therefore, governments are looking at eliminating physical money to 1) prevent the hoarding of money, and 2) increase their ability to tax savings. Velocity started to turn at the end of 2017 as interest rates *rose*.



Therefore, this basic theory of increasing the quantity of money through Quantitative Easing has failed to produce inflation. There is a far greater risk today that the financial system as we have known it since World War II is on the verge of collapsing. A simple example of what happens after interest rates have been artificially suppressed can be seen from the Federal Reserve 1951 Accord. It was during April 1942 when the Department of the Treasury requested the Federal Reserve formally commit to maintaining a low interest–rate peg of 3.8% on short–term Treasury bills. The Fed also implicitly capped the rate on long–term Treasury bonds at 2.5%. This became known as the "peg" with the express goal of stabilizing the securities market and allowing the federal government to engage in cheaper debt financing for World War II, which the United States had entered in December 1941.

The surrender ceremony was held on September 2nd, 1945 aboard the United States Navy battleship USS Missouri (BB-63)

Today, we have extraordinary low rates of interest that have funded government, but have wiped out the real bond markets insofar as being a viable market long–term. The World War II accord to maintain low rates was followed by a collapse in bonds after 1951 once the accord ended by sheer force. We will see the same outcome moving forward. How will the shares perform?

The government ordered the Fed to maintain the peg and give up control of the size of its portfolio as well as the money stock. In essence, this was Quantitative Easing during World War II but the Fed was ordered to provide a floor to the bond market – not buy the whole market as has taken place at the ECB. Today, Quantitative Easing among all central banks does not create a fixed peg, but it has inadvertently provided a floor for government spending to continue contrary to the free market forces.

Quite frankly, the Fed back then maintained the low interest rate by buying large amounts of government securities, which also increased the money supply domestically at the time they assumed for that money bought government bonds monetizing the war expenses. Because the Fed was committed to a specific rate by the peg, it was compelled to keep buying securities even if the members of the Federal Open Market Committee (FOMC) disagreed.

As usual, the politicians were clueless. As Merkel fears hyperinflation of the past and shoves austerity down the throats of Europe, following the war, American politicians were afraid of a new depression would emerge as they always fight the last war just as Merkel today. They ordered the Fed to maintain the peg even after the end of the war in 1945.

The United States entered the Korean War in June 1950. The problem was inflation not deflation. The FOMC of the Fed argued strongly that the continuation of the peg would lead to excessive inflation. A real confrontation with the politicians was brewing all year and they opposed the Treasury who naturally wanted to keep borrowing at cheap rates.

Everything exploded by February 1951. Inflation had soared to 20%. As the Korean War intensified in 1950, the Fed faced the possibility of having to monetize a substantial issuance of new government debt to fund that war. This only intensified inflation. Nevertheless, Harry S. Truman became president in 1945 and it was his administration that continued to urge the Fed to maintain the peg.

The financial crisis erupted into a major conflict when Truman invited the entire FOMC to a meeting at the White House. Truman then issued a statement saying that the FOMC had "pledged its support to President Truman to maintain the stability of Government securities as long as the emergency lasts." In reality, the FOMC had made no such pledge. Conflicting stories began to appear about the dispute in the press. The Fed then made an unprecedented move – they released the minutes of the FOMC's meeting with the president.

The conflict erupted in full view. The Fed revolted against the politicians. Shortly thereafter, the Fed informed the Treasury that as of February 19th, 1951, it would no longer "maintain the existing situation." The Treasury was caught in a crisis for it needed to refund existing debt and issue new debt, a situation governments are still in today. They never pay off debt, they simply roll forever.

Harry S. Truman (1884 – 1972)
33rd President of the United States (1945 – 1953)

The government had no choice but to negotiate a compromise under which the Fed would continue to support the price of five–year notes for a short time, but after that the bond market would be on its own. It was on March 4, 1951, when the Treasury and the Fed issued a statement saying they had **"reached full accord with respect to debt management and monetary policies to be pursued in furthering their common purpose and to assure the successful financing of the government's requirements and, at the same time, to minimize monetization of the public debt."**

While it was this accord that created a free market in government securities, interestingly enough, the Fed simultaneously raised rates from 1% to 2.25% at the time they were ordered to maintain government bonds at par. The government effectively had their interest rates capped while the private sector saw rates more than double.

Today, under **Quantitative Easing**, there really is no distinction between government and private debt. Both will be forced to pay higher rates when rates rise. We can see that once this **1951 Accord** took place, rates began to explode in a normal free market. There is a strong likelihood that government debt becomes extinct by 2023. This time, government will be paying the same as the private sector and there is a significant risk the private sector will not buy new debt.

We can see that the bond market began to crash as interest rates were at last free to move post-1951. This is most likely the outcome of the voluntary **Quantitative Easing** that is really a critical issue. This time, the central banks have gone and done this themselves and they are trapped. They cannot sell the debt they have bought and therefore, we are looking at a crisis when that debt has to roll. The European Central Bank holds more than 40% of the government debt for the whole of Europe. Once that matures, who will buy the new debt the next time around? We are looking at a deflationary impact by default. Looking at the 10 years, a breach of the upward channel will signal a major change in trend is unfolding.

The fascinating aspect of all this analysis is the myopic view employed. People try to come up with some magic indication with a one-dimensional relationship that is normally limited to domestic indicators. They never look around the world, nor do they venture beyond one single concept.

If you Google something, you encounter the overwhelming line of forecasts predicting a major crash in the stock market. Back in 2011, Barron's did report that our forecast was for a new long-term bull market in equities: **"The model pegged June 13-June 14, 2011 as the start of a long-term upward trend in the market; the market obliged by notching its first weekly rise since April 29."**

Curiously enough, Barron's has not reported on our model ever since. Were they just trying to comment on something they thought would never happen? One would think they would now report the fact that the Dow Jones Industrials were at the 10,900 level in September 2011 and have rallied to 20,000 by 2017.

BARRON'S

REVIEW | SATURDAY, JUNE 25, 2011

Circular Reasoning: A Market for Pi in the Sky?

By ROBIN GOLDWYN BLUMENTHAL | MORE ARTICLES BY AUTHOR

The man who called the '87 crash is now calling for a long-term market rise.

Follow-Up | Dow Indicator | Preview

It looks like the stars are aligning for market theorist Martin Armstrong and his devout followers. Just as Armstrong is finishing up a long prison sentence for contempt of court—stemming from charges in which he was accused of running a kind of Ponzi scheme—his method of sizing up confidence in the economy is pointing to an upturn in the stock market.

Armstrong is the developer of the Armstrong Economic Confidence Model, best known for calling the crash of 1987 to the very day. The model pegged June 13 -June 14, 2011, as the start of a long-term upward trend in the market; the market obliged by notching its first weekly rise since April 29.

William Waitzman for Barron's

Buy Signal: An esoteric theory based on cycles that relate to the ratio pi recently signaled the start of a long-term market uptrend.

The model holds that every 8.6 years there are shifts in market sentiment, with public confidence waxing or waning in response to world events. Also key are quarter-cycles of 2.15 years. The low of the bear-market cycle on March 6, 2009, to the peak of April 29, 2011, spanned 785 days, or 2.15 times 365. The June 13-June 14 period marks 8.6 years since the last major bottom of 2002, and is 4.3 years (two times 2.15) from the 2007 peak of easy money and the tightest credit spreads ever.

The model is known as the "pi" cycle, because there are 3,141 days in an 8.6-year cycle, reflecting the value of pi (3.14159...) times 1,000. Pi, the ratio of a circle's circumference to its diameter, is a revered number among mathematicians and, in Armstrong's view, may help explain the model's predictive power.

Jailed since 2002, Armstrong is under house arrest until September. "Regardless of who he is and what he may or may not have done...he does a great job of calling a hidden cycle," says Markman Capital Insight's Jon Markman.

Time to say hi to pi?

-- Sandra Ward

The question erupting from all views is simple. Let's assume the stock market is going to crash by 80%. Where will money flee? Bonds? That is the traditional flight to quality. However, the peak in the PE Ratio on the S&P 500 was 2009. That illustrated a critical point. When you fear government, banks, and you just do not know what is coming next, where do you run? In 2009, they ran to equities parking big money as well as commodities such as gold. So where do we hide next time?

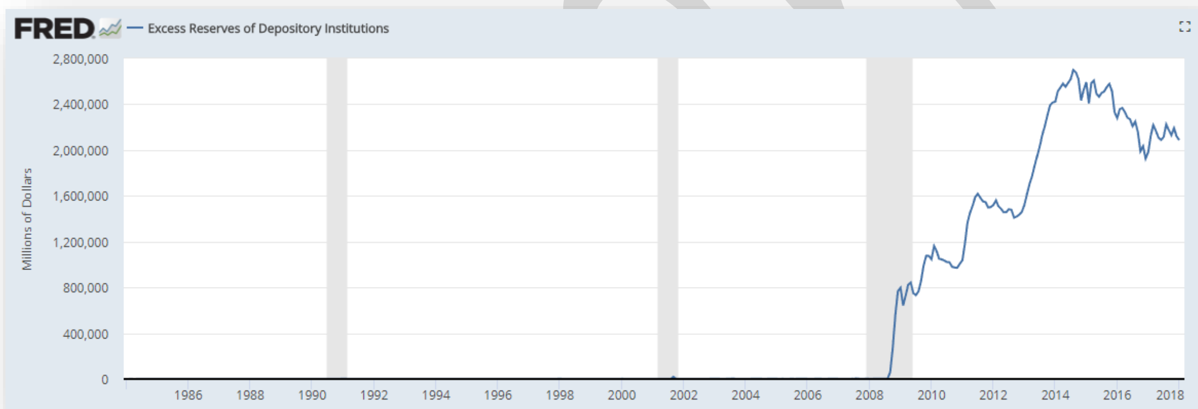
No Place to Hide?

There may not be a rock big enough to hide under when we see the bond bubble burst. The danger **Quantitative Easing (QE)** has introduced is by no means inflationary, it is a catastrophic collapse in the Sovereign Debt Cycle. What happens when governments realize they can no longer issue debt? The central banks have destroyed the bond market for the European Central Bank (ECB) under the leadership of Mario Draghi, now owns more than 40% of **ALL** government debt in Europe. Draghi cannot sell the debt, and governments have grown accustomed to selling their debt with no problem. There have been times in the past two-years when even the German bond auctions encountered no bid for their paper. *Reuters* reported back in September 23, 2015:

"The U.S., German and British governments are finding it harder to sell super-long bonds than at any time in almost a decade as meagre yields deter investors and new regulation bites into banks' ability to broker this debt."[1]

[1] McGeever, Jamie. "German bond auction "fails" [to] shine light on bank rules, yield funk." Reuters.com. https://www.reuters.com/article/markets-bonds-auctions/german-bond-auction-fails-shine-light-on-bank-rules-yield-funk-idUSL5N11S2EO20150923 (accessed February 9, 2018).

We live in a **VERY** dangerous world where the financial system is tottering on a tight rope and nobody seems to comprehend how serious this situation has become. The historical precedent of government defaulting is relentless. While people assume they will be printing money to meet promises that will be hyperinflationary, the real risk remains massive deflation as they raise taxes and reduce what they promised.



I have stated many times, that QE would not be inflationary because they were buying in bonds that were not necessarily in domestic hands. China sold their long-term holding and shifted maturities to 5 years or less and the money flowed to China, not domestically. Then the banks complained they had no place to park money so the Fed created **Excessive Reserves** that reached almost $2.8 trillion. Therefore, the money they presumably pumped into the economy never made it. The banks still parked it at the Fed instead of in bonds or lending it out.

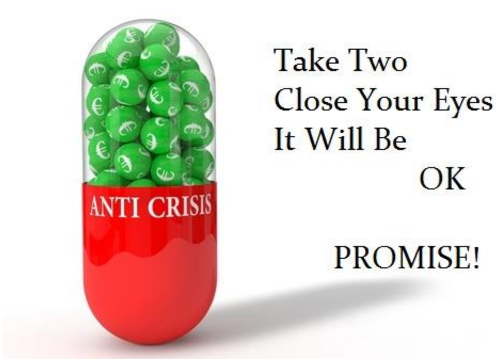
Creating **Excess Reserves** defeated the entire idea of stimulus. I cannot contemplate how anyone capable of rational thought would assume this would be inflationary. The Fed bought the bonds, the banks then handed the cash back to the Fed, and then the Fed paid them interest. Can anyone explain why it would be inflationary when money never left the Fed? This illustrates that we simply must dive deeper into anything the government does.

The interesting thing is that the U.S. banks have the best cash positions and may yet attract capital from overseas when foreign banks get into trouble as is the case in Europe. Mario Draghi's management of the European Central Bank has proven to be a real catastrophe. The ECB portfolio now stands at 3.72 trillion euros, or 36% of the Eurozone's entire GDP.

Mario Draghi (born 1947)
Italian banker & President of the European Central Bank since November 2011
Former vice chairman & managing director of Goldman Sachs Intl (2002–2005)

Draghi has come out and said that the catalyst for the next market crash is Donald Trump's deregulation of the banking industry which has **"sown the seeds of the next financial crisis."** Draghi is preparing to blame Donald Trump when he has cut rates to negative and poured money into Europe since 2008 without any success. U.S. banks are cashed up, whereas European banks remain tottering in the wind out on their tightrope. Draghi told the European Parliament's committee on economic affairs in Brussels: "The idea of repeating the conditions that were in place before the crisis is something that is very worrisome." The problem here is that each crisis always brings a new type of crisis. It will not be mortgage backed securities this time, but Draghi's failed QE program that has created deflation for the past 8 years.

We are rapidly approaching the failure of **central banks** – not just local banks. When the next crash comes in bonds, the central banks are loaded to the brim (especially the ECB under Draghi), and they have nowhere to hide. There is nothing more they can do. The past eight years of failed stimulus has not turned the economy around. Draghi has no more room to manage the economy, no less his own dreams. This is why he has announced he will be ending QE.



Draghi has bought government debt for the ECB that amounts to 40% of all national debts within the Eurozone. Plus, his bond holdings represent 37% of the total GDP of the entire Eurozone. He has no room left to do anything. All he can do now is point the finger at Trump. The entire Quantity Theory of Money has been laid to waste.

For the first time, Mario Draghi, has conceded the possibility that the EU may fall apart. Draghi came out and said that any member leaving the Eurozone would need to **settle its claims or debts with the bloc's payments system** before severing ties. This statement reveals the heated discussion at Davos and the rift that is beginning to spread following BREXIT. This statement was made in a letter to two Italian lawmakers in the European Parliament.

Based on data to the end of November 2016, Draghi was trying to make it too expensive to leave the Eurozone. If the euro cracks, he is out of a job. He wrote this to effectively warn Italy that it would have to pay 358.6 billion euros to leave — an exit tax. Draghi is raising the stakes to make it extremely punitive to leave. His new theme song is "Hotel California" by the Eagles – *you can check in, but you cannot check out!* What Draghi fails to comprehend is that such demands will not keep the Eurozone together. They are more likely to cause it to disintegrate and just default on the ECB. Ultimately, the people will rise up in these member states and overthrow their own government who will then just default. Governments routinely default on their debts. This time, the **ECB will be the creditor who is wiped out** and each member can just start fresh issuing their own debt in local currency all over again. What can Draghi do? Invade and threaten gunboat diplomacy? Indeed, militarized debt collection was a well–accepted part of international relations during the 19th century. It had become accepted practice until the Hague Peace Conference of 1907. Draghi would need to use NATO to collect the debts of member states. That is not likely.

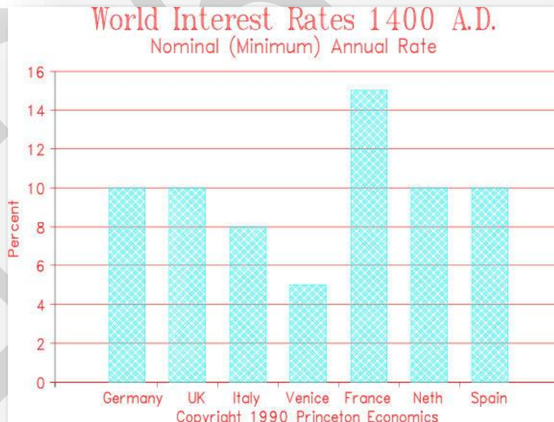
Southern Europe, which holds the weaker economies including Italy, Spain, and Greece, has accumulated huge liabilities to keep the euro afloat while Germany stands out as the biggest creditor with net claims of 754.1 billion euros. This alone may set off the massive capital flight to the dollar and the major safe haven will be **EQUITIES!** We are looking at the complete collapse of the **Quantitative Easing** carried out by the ECB since 2008 without any success.

Governments will raise taxes on a wholesale basis trying to survive and that will only lead to tax rebellions. Meanwhile, we see the uprising of the extreme left which is determined to overthrow Trump because they simply cannot live and let live in peace. They are always determined to subjugate others to their own agenda so they can live in a world they create by denying others the right to be left alone. The left calls the right the "deplorables," yet demonstrate that they themselves are the "intolerables" who refuse to live in peace. Like Lenin, they simply want to destroy the government system and reshape it into their utopia, subjugating anyone who disagrees with them.

The critical link in the entire financial system remains, **CONFIDENCE**. Once the degree of confidence in the debt structure crashes, everything will fall apart. Government never pays off their debt. They only sell new debt to pay off the old – the classic Ponzi scheme. Everything comes crashing down when there is **NO BID** for the new issue. This is when we reach the point of no return. Historically, this is how **ALL** governments have failed. Even back in the 13th century when public debt was first reemerging after the Dark Age, it reintroduced the danger of government debt and how it destroys civilization. The Catholic Church adopted the sin of usury following the fall of Rome because debt has always been the lethal weapon that has wiped out everything and ultimately creates the Dark Age. When capital withdraws, there is no investment, and people revert to simply living for the moment.

In 1288, Cologne, Germany, citizens assumed political power after the military victory over the archbishop and town rulers. However, Cologne secured its independence at that time at the expense of amassing a debt by 1275 of 2,075 marks –– one mark was typically a half-pound or 8 troy ounces. Ultimately, the rebellion in Cologne paved the way for the city's later establishment as a free imperial city by 1475. Eventually there were major civil tax revolts in 1364, 1370, and 1396. Tax Revolts appeared in Nuremberg in 1348, Lubeck during 1383, and Augsburg in 1370, as well as in Frankfurt during 1355, followed once again in 1364–1365.

However, it was Mainz, *Mogontiacum* in Roman times, which served as a model of political decline due to excessive government debt that all governments eventually followed. The big thing was annuities. People were trying to prepare for their old age. Mainz offered annuities where you handed them all your money and they promised to pay you an annual amount for life. This was the popular Middle Ages form of pension savings. By 1411, the Mainz government expenditure on annuities reached about 48% of its total expenditure, and by 1436–1437 annuity expenditures rose to about 75%. Naturally, the government spent all the money people handed them for these annuities. There was zero fiscal management.



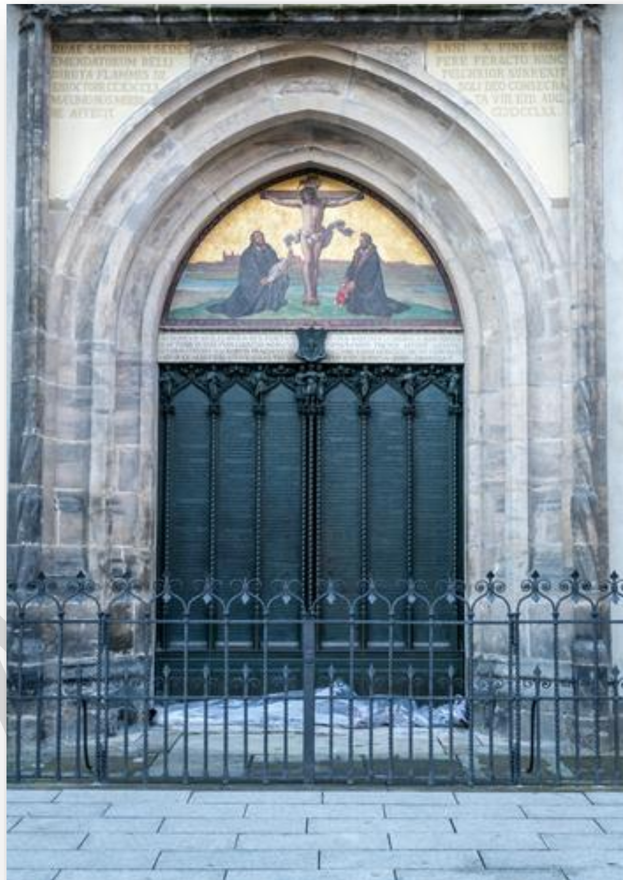
Interest rates continued to rise. The city of Mainz was forced into bankruptcy when there was **NO BID** for its new debt to pay off the old. Mainz owed 373,184 gulden and there were no buyers in 1448. Like all modern governments today, about 60% of the debt of Mainz was held by foreign investors. The city was placed under an Imperial ban, which was a form of outlawry, and the Pope excommunicated the city for usury. The rich fled the city as taxes rose and Mainz quickly became impoverished.


Albert of Brandenburg
(1490 – 1545)

Eventually in 1462, Mainz was raided, sacked, and over 400 inhabitants were killed. A tribunal was formed to judge the survivors where they lost all their property. Most, including Johannes Gutenberg of the Gutenberg printing press, were all driven out of the city or thrown into prison. The city charter of Mainz originally granted in 1244 was revoked and put the city under his direct rule of its invader. Much of its citizens were exiled and it lost its independent sovereignty.

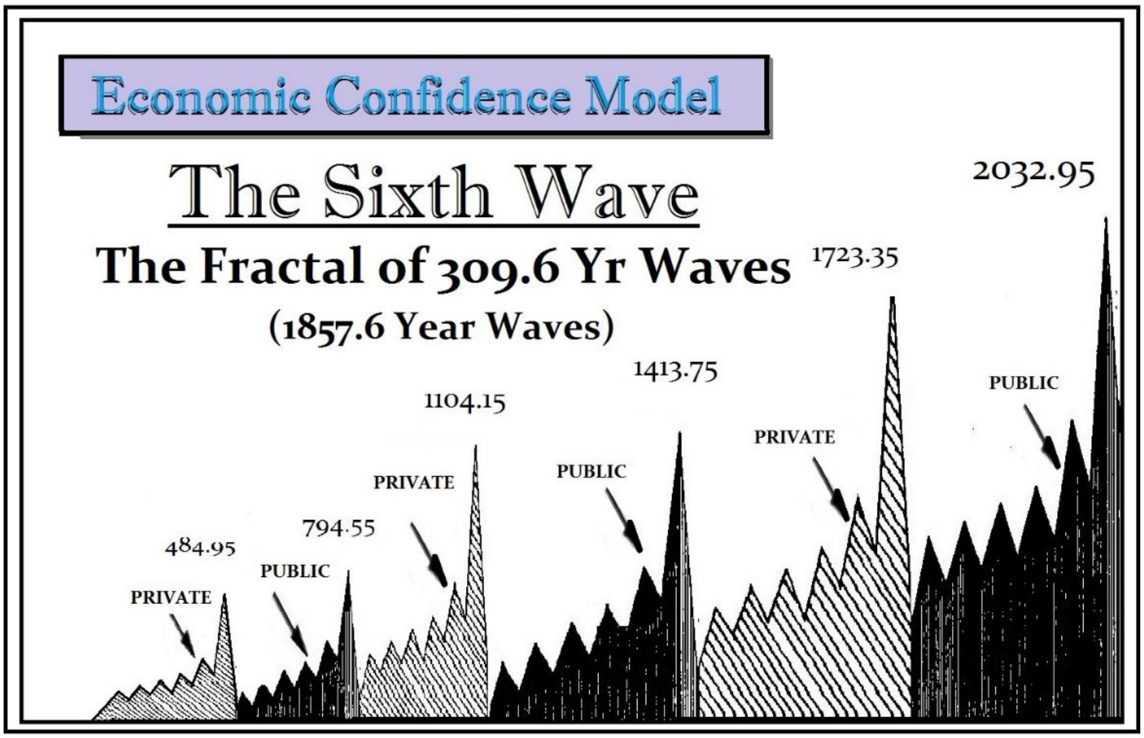
During this period, being an Archbishop was a political post not granted by the Pope. It was 1514 when Albert of Brandenburg (1490–1545) became the Archbishop of

Mainz at the age of 24 by borrowing 21,000 ducats from the German banker Jakob Fugger. To repay this loan, Albert sold indulgences and it was this corruption that sparked Martin Luther (1483–1546) in 1517, a professor of moral theology at the University of Wittenberg, Germany, to protest drafting his famous Ninety–Five Theses on the door of All Saints' Church, in Wittenberg. The Latin inscription above explains that the original door was destroyed by a fire, and that in 1857, King Frederick William IV of Prussia ordered a replacement be made. Therefore, Mainz was not merely the birth place of the Guttenberg printing press, but the center for corruption that began the protestant reformation. Clearly, it was this debt which sparked the sale of indulgences to pay off the loan of Albert, not the Pope.

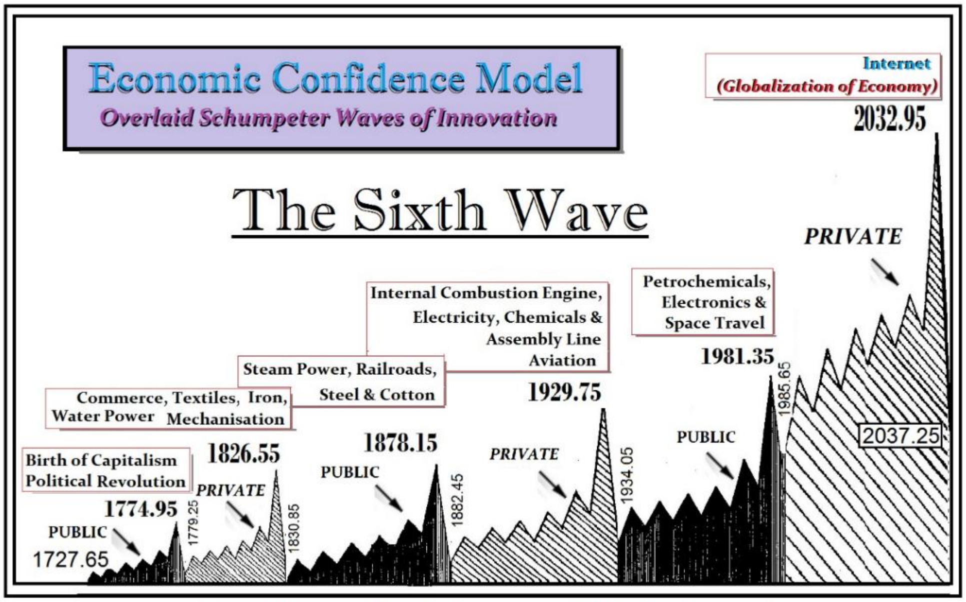


Moving forward in time, the 17th century saw a series of anti–monarchical rebellions driven by taxes that would no doubt culminate in the American and French Revolutions toward the end of the 18th century. The mismanagement of government led to the erosion of the tax base during the years 1647–1653 in France and 1650–1651 in Spain. The very birth of Switzerland in 1308 was sparked by a tax rebellion. The legend of William Tell defied the Austrian authorities who forced him to shoot an apple from his son's head. The Chronicon Helveticum (1734–1736) gives the date November 1307 for the incident of Tell and 1308 for the liberation of Switzerland, but that is subject to debate.

There was a peasant uprising in Switzerland 1652–1653, which the cities crushed the people ruthlessly, and tax rebellions appeared against the King of Spain starting with the Dutch revolt that spread as a **CONTAGION** and appeared in Basque countries of Catalonia, Portugal, Palermo in Sicily, and Naples, Italy. The clergy resisted the salt tax in the 1630s of the Castilian government. There was also a rebellion in Portugal in 1640 that spread and we see a rebellion in Catalan that lasted between 1640 and 1652. There was the "stamped paper" rebellion in Brittany during 1675 where a tax was imposed on any document.



These tax rebellions of the 17th century led to an independent monarchy in Portugal that was finally recognized by Spain only in 1688. Of course, we have the Glorious Revolution in 1689 leading to a limited monarchy in England that was much more than merely religion. There were tax uprisings throughout Europe. There was the peasant uprising in England led by the Duke of Monmouth (1649–1685) who was beheaded when the rebellion was defeated on July 6, 1685. There was a sign of fiscal reform in 1650 in the Dutch Republic when it reduced its budget from about 20 million guilders to 5 million.



The rebellions of the 17th century were taking place during a Private Wave on the 309.6–year level. That ultimately peaked in 1723 and things began to calm down as we entered a private wave on the 51.6–year level of the ECM. Toward the end of that 51.6–year wave, it began to heat up once again. There were all sorts of taxes attempted and the resistance toward taxation sparked widespread rebellions as the ECM moved into the final stages of the public wave that peaked in 1774.95.

James Scott, 1st Duke of Monmouth
(1649 – 1685)

Just 8.6 years before that wave peaked, King George III needed money and imposed the infamous Stamp tax, which helped to create the American Revolution. This was known as the **Stamp Act of 1765**, which imposed a direct tax on all colonial commercial and legal papers, newspapers, cards, pamphlets, books, almanacs, and dice. This sparked all sorts of riots in America, stamp burnings, and intimidation of tax collectors. This led to a **Stamp Act Congress** being called

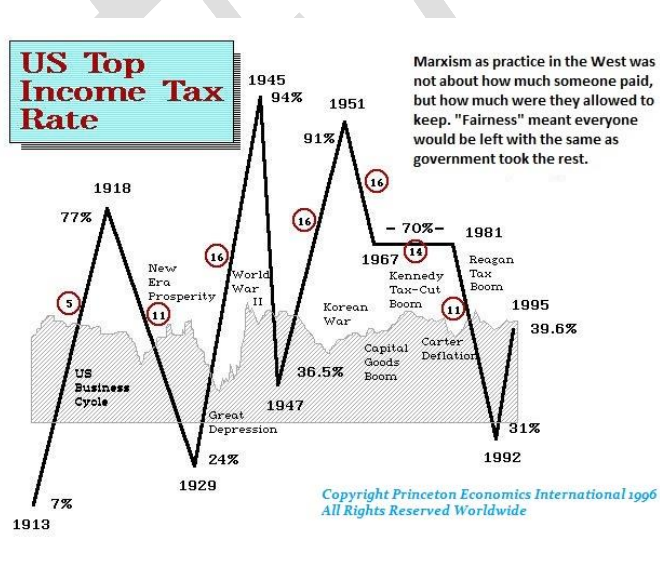
Stamp Act published In the Pennsylvania Journal October 1765 in New York during October 1765, and forced England to repeal that act in 1766 – 8.6 years before the peak.

George III of England
(b 1738; 1760-1820)

Of course, the peak of the ECM was 1774.95. As soon as that wave turned, the revolution began in America. It was 1775 that marked the beginning of the Revolutionary War which has been attributed to April 19, 1775 when the British tried to seize the military supplies of the Massachusetts militia. The Declaration of Independence was ultimately announced on the July 4, 1776. King George III had officially declared America in rebellion on August, 23, 1777.

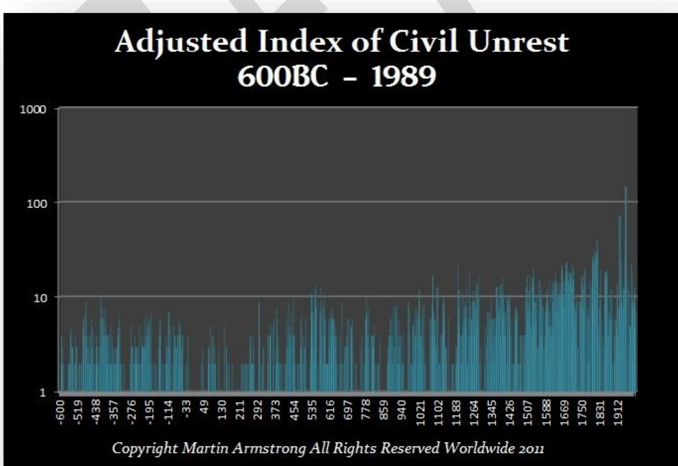
There was Philippe de Mornay (1549–1623) who had written in 1579, "***Vindiciae contra tyrannos***" (A Defense of Liberty Against Tyrants). It was Mornay who argued there was a contract between the monarch and the people. Sir Thomas Moore (1478–1535), had published his *Utopia* (meaning no place) where he created a pagan world of a communistic–like existence based upon reason that he found absent among the royal houses of Europe. Moore was sentenced to death by the English Crown as a traitor. Yet, his ideas contributed to the times.

Today, government has learned to pretend the taxes are for the benefit of the people, promising socialism. Before the 20th Century, taxes were just plain extortions for government. What has changed is the introduction of socialism where the government claims the power to rob the rich for the benefit of the poor. In this respect, a large portion of the masses lack the common sense to realize they are just pawns in the game of finance. They will cheer rising taxes that governments claim are targeting people who have money, but inevitably they come down to the average person. The



tax rate has become a political football. The instability of taxes has done more to send jobs overseas than wages.

So the crisis we face is the same as the past. Government will continually seek to raise taxes while pretending, this time, it is for the people to keep the majority outright stupid and protesting against the rich. This introduces the real risk of civil war while these people think the enemy is anyone who disagrees with them as they believe government really cares about their future. The risk of civil war will emerge probably following the peak of this wave in 2032.95.

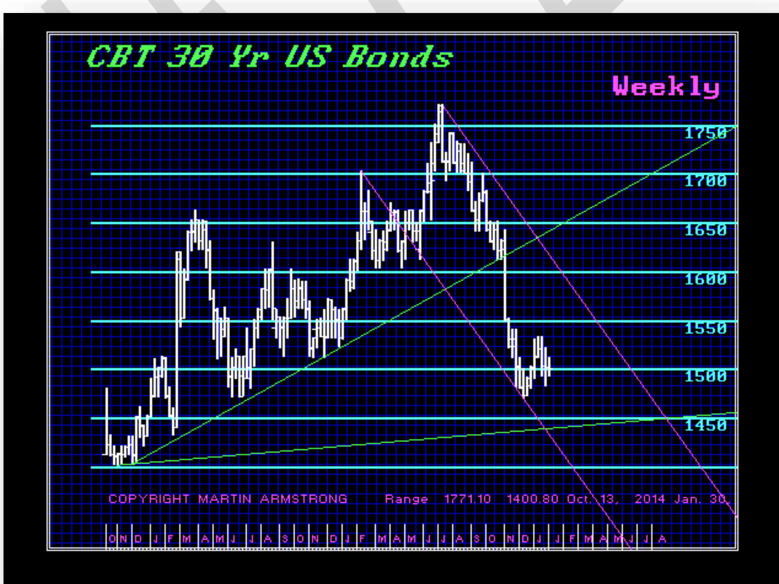


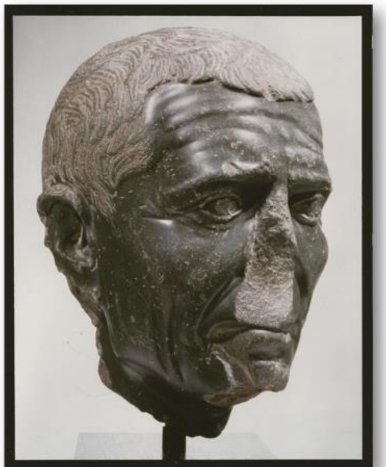
This cycle should produce the greatest wave of civil unrest perhaps in the history of humanity. What we have witnessed just so far with the election of Donald Trump is just the beginning. The left are always the people who start revolutions and are intolerant of anyone who disagrees with them. This is why more people have been killed during leftist uprisings. They will slaughter those who disagree and pound their chest as being righteous. They inflict judgment, which they perceive as God's will.

The financial crisis in this manner will be blamed upon the rich, which historically has included bankers to Jews. The left will pose the greatest danger for they are the shield of government and too stupid to comprehend the real culprit – government corruption.

The catalyst will be the **NO BID** moment. That is when everything that has been hanging by the tips of their fingers will slip and come crashing down.

The US bond market peaked the week of July 11, 2016 at 177110 which was 35 years up on an intraday basis from the 1981 high, but 34 years up on a closing basis since 2015 produced the highest annual closing in line with the 2015.75 peak in government. Clearly, the trend has changed as 2016 closed lower than 2015 and now a year-end closing below 143250 will signal that indeed we are heading into the abyss with respect to government debt. Keep in mind that the US federal debt is the cream of the crop globally. Therefore, for the US long-bond to bite the dust, we will see far greater damage everywhere else first.

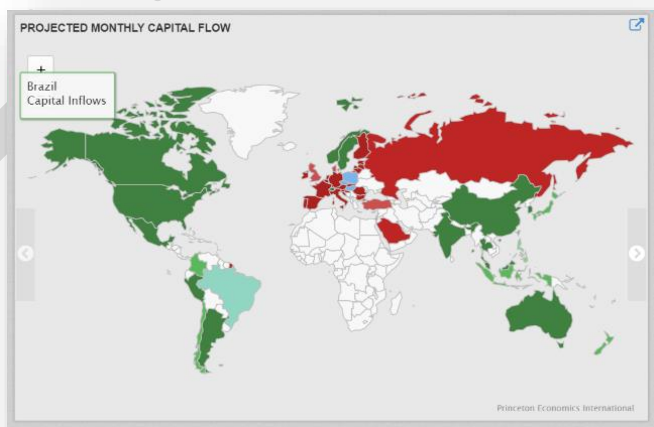




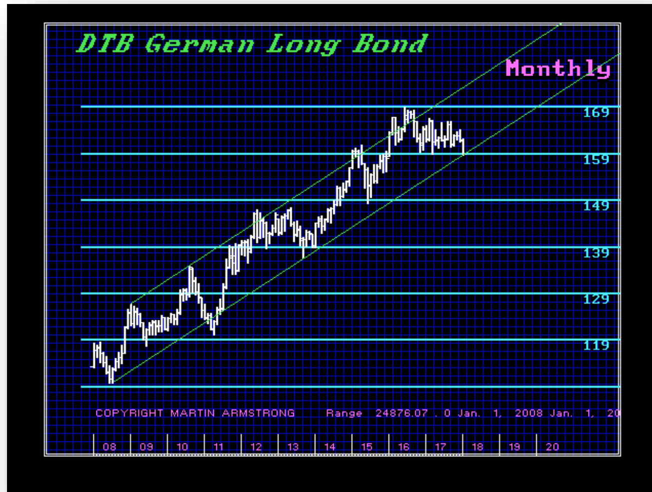
Julius Caesar
(100-44BC)
(Black Bassault Bust Commissioned by Cleopatra)

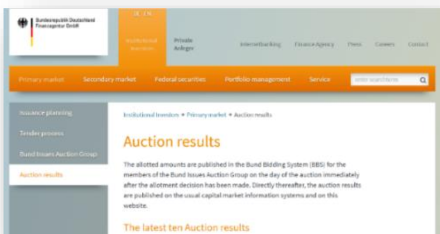
The dollar remains the only currency in town to park big money in these days despite what the press tries to paint about Trump. The Democrats and the mainstream press (CNN, ABC, CBS, the New York Times, Washington Post, etc.) will continue to try to divide the country and oppose Trump on every possible front. At the State of the Union, no matter what Trump said, the Democrats would never applaud. Their mission is as simple as what Julius Caesar (100–44 BC) declared as a strategy, "***Divide and Conquer***". This is precisely what the mainstream media is doing, unraveling the stability of the world and setting the stage for 2018 to unfold as the year of total insanity. We have November 21, 2018 (2018.89) as the pi turning point on the Economic Confidence Model, which normally marks a political turning point. We also have the November 2018 mid–term elections with many Republicans retiring.

Additionally, Trump's Tax Reform has had a major impact globally. Of course, it will be beneficial for the U.S. economy in the broader–term, but it has created the realization that there must be competition in taxes. We see demands to lower taxes in Germany, France, and Britain. Even China announced it would not change any income tax to foreign corporations investing in certain areas within China. Clearly, there is the rise of protectionism, but this is to be expected as the growth rate in world GDP continues to decline.



Trump also has to confront the prospects of a rising dollar, not a declining dollar, as he would love to make US products more attractive overseas. Keep in mind that **a rising dollar is the only thing that will bring about a global Sovereign Debt Crisis.** The emerging markets borrowed in dollars, and the higher the dollar rises, the greater the chances of emerging markets moving into default. The global capital flows are simply pointing against what Trump is attempting to do with international trade.

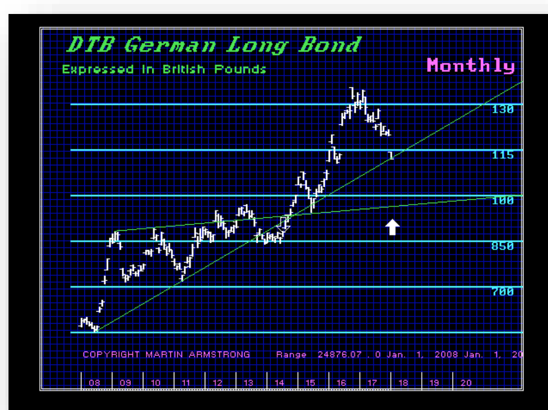




The German bond auctions have already experienced periodically bouts of **NO BID** at their auctions. Here the intraday high came in June 2016 but the highest monthly closing took place in July 2016. The one aspect that has held the German bunds up has been the bearishness regarding the euro itself. The popular trade has been to buy the German bund under the assumption that if the euro fails, they will convert to Deutsche marks.

Indeed, looking at the German bunds in terms of British pounds, we can easily see how the bunds have risen thanks to the internal perceptions and net capital movement within Europe.

The question this answers is rather blunt. Normally, when a stock market crashes, capital flees to safety seeking shelter in government bonds. Will this same flight to safety take place when the real bubble is in the bond market and not stocks?



Free Trade under Assault

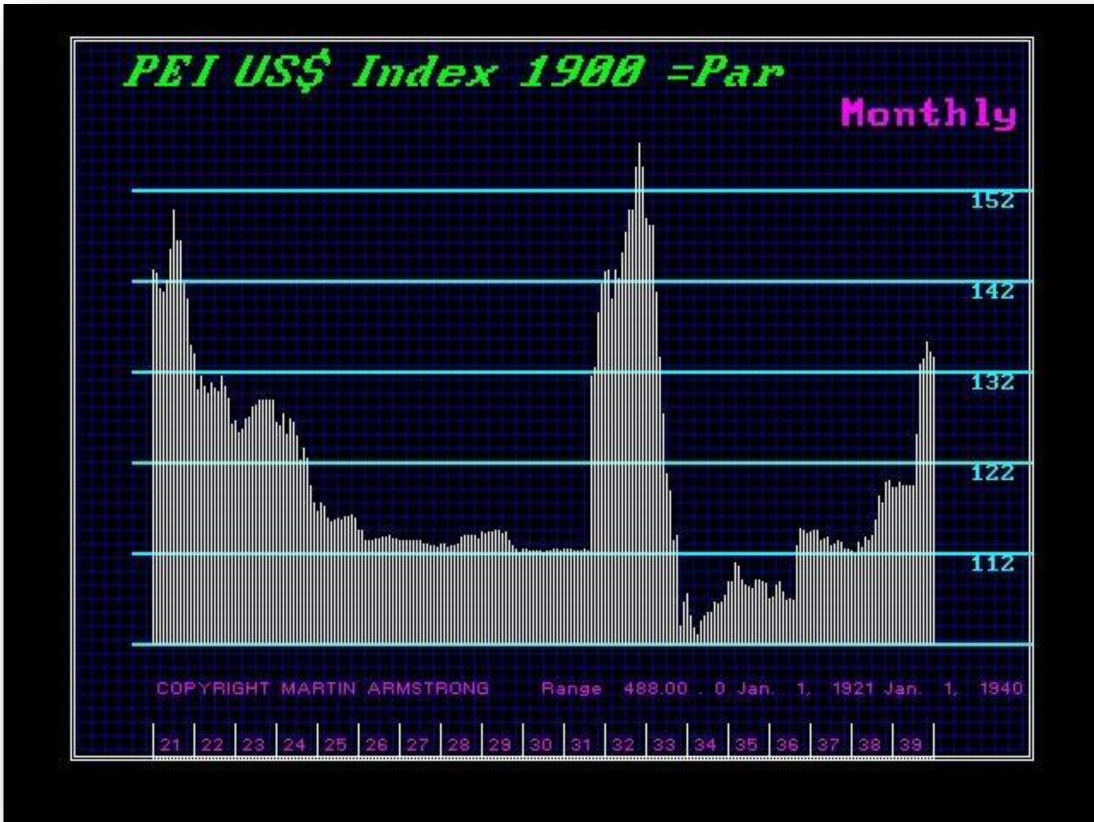
The real question concerning trade will be how far Trump goes. Trump does not understand international trade nor does anyone in politics globally for that matter. The entire problem with trade and jobs has been its focus on the job side of the question and not the consumer. David Ricardo (1772–1823) developed his principle that nations should pursue their own comparative advantages. In other words, just because I might want to be a brain surgeon does not mean that I have a right to be protected by government at the expense of the patient. Any attempt to support jobs in trade within a balanced world of currency is a subsidization of labor forcing the consumer to pay more. In all fairness, there are far more consumers than employed workers to produce any given product. So to argue that Mexico or China are taking jobs is to argue that the consumer should be paying more for that product. This becomes the King Solomon (Jedidiah) quandary – cut the baby in half.

Free Trade means that there should be no barriers, and in this way the consumer is favored rather than the worker. If the worker demands too high a wage or slacks in their performance, then they should lose their job and learn to stay competitive.

Trade has always been misunderstood for the two primary elements are jobs and currency. If you do not comprehend both elements, then you cannot properly manage trade, no less understand it. Jobs, naturally, are always a great topic to expose by politicians for votes. This merely helps to maintain the misconception of how and why trade functions. Honestly, there is nothing any politician has ever been able to accomplish with respect to trade other than messing up the entire world economy. The protectionism of the Great Depression was set off by:

1) Economic implosion in Europe that reduced sales to Europe.

2) The rise in the dollar reduced the competitiveness of US goods and lessened the cost of imports. The US entered a trade deficit with the rest of America because of the strong dollar.



The dollar soared in value as European countries began to default on their sovereign debts. The politicians misunderstood, as always, and responded with a trade war simply because the currency rose. Trump will face the same crisis once again. The failure to comprehend the currency is very critical. During the Great Depression, our Dollar Index rose nearly 50% into 1932–1932. It was George Warren who convinced FDR that the solution was to devalue the dollar.


George F. Warren (1874-1938)

One solution will be to index tariffs to the dollar. Thus, a 10% tariff across the board would be plausible on the trade issue. However, the danger of protectionism will emerge if you pick and choose between products and fail to understand the link to the currency.

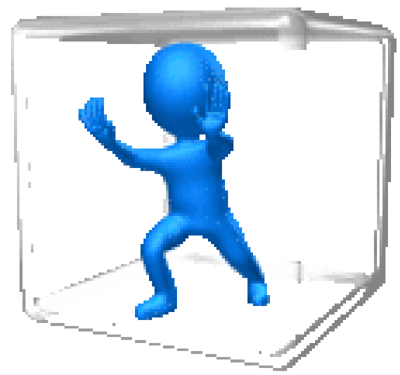
September 22nd, 1985 - Plaza Accord

From left: Gerhard Stoltenberg of West Germany, Pierre Bérégovoy of France, James A. Baker III of the United States, Nigel Lawson of Britain and Noboru Takeshita of Japan.

The left socialists are out in force to say Trump's 10% one-time tax on foreign held money by U.S. corporations will do nothing for the economy. Ebay was looking to take over two companies to expand domestically. They had to decline because the expansion meant they would have to bring cash in from overseas and the added tax would make both deals unattractive. Yes, some companies will bring back cash, pay out dividends, and buy back their own shares. Trump should also eliminate the dividend tax, thus the money would go to shareholders who would pay their one-time tax on income. This will be a far better stimulus plan than the Fed handing money to bankers in hopes that they will lend it out, which never happens. Small businesses are turned down by the bankers for more than 80% of all loans. The banks do not invest in innovation that is the mother of jobs.

Trump should impose a 10% tariff on everything, and then index it to the US dollar index. That will avoid a protectionism crisis and deal with the largest influence being the currency. The entire reason why Germany wanted the euro was to eliminate currency risk for German companies so they would not need to worry about currency swings and become noncompetitive or they would move jobs to Southern Europe.

We must start thinking out of the box. Politicians have been listening to academics who never think out of the box as a rule because they have no real world experience. You cannot learn to be a pilot from video games or reading books. It takes real world experience to fly a plane.



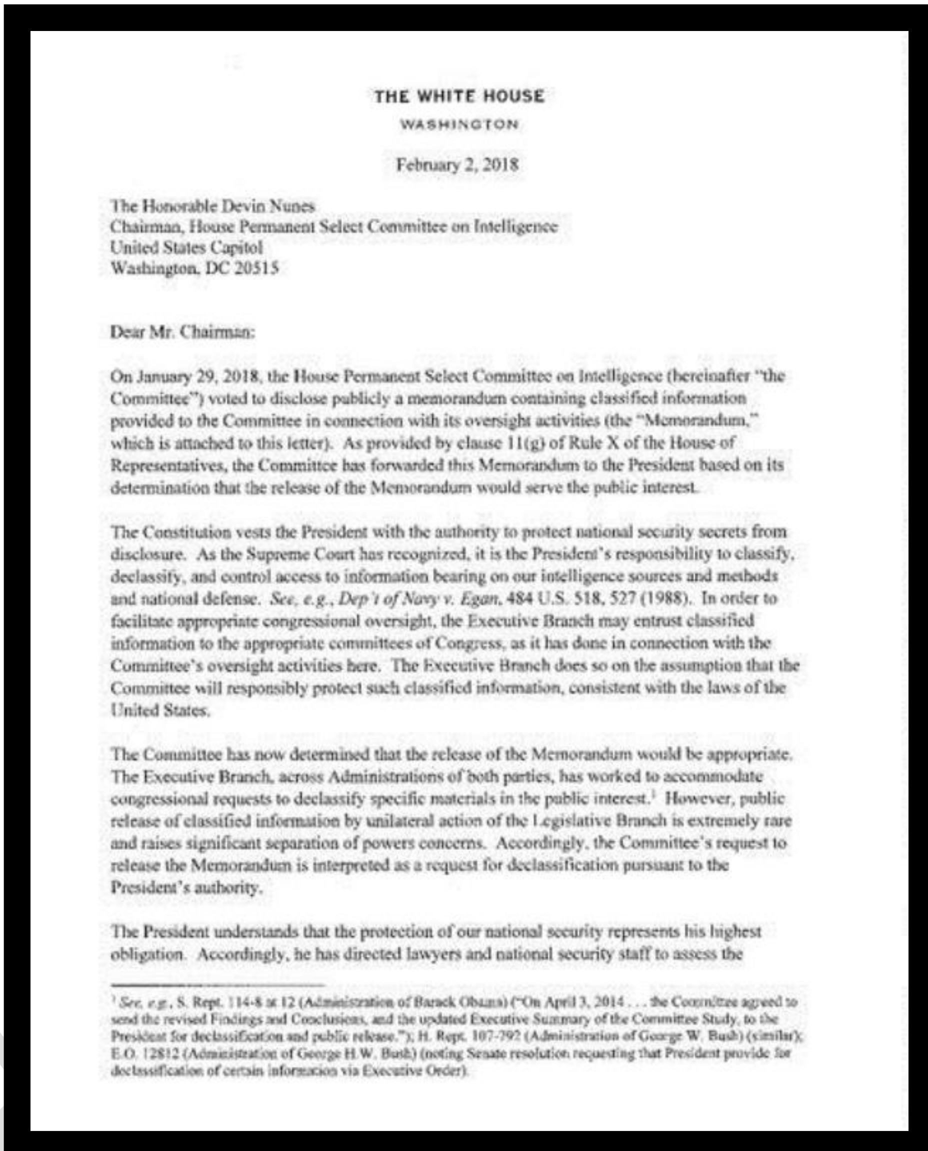
The mainstream press does not understand trade in the least and they will throw around numbers that are always in dollar terms. Disappointing trading figures came from China, showing exports decline sharply in US dollar terms in December by 6.1% compared to the previous month. Imports increased by 3.1%, but this was mainly explained by the replenishment of stocks before the early Chinese New Year festival at the end of January. As a result, both exports and imports were weaker than expected by experts. But these "experts" are not so proficient. Their view of the world is only through dollars. If imports rise and the dollar declines by the same amount, there is no real increase in imports for it is merely impacted by currency. If the dollar rises and imports increase by the same amount, again it is in currency and not goods. For you see, trade is measured **ONLY** in cash flows. There is no one there counting the number of BMWs coming in at the dock.

Meanwhile, automakers such as Ford reassured Trump that the company has decided not to move its Lincoln assembly operations from Louisville, Kentucky to Mexico. Chrysler has announced the creation of 2000 jobs in the US as the new jobs are to be created in two factories in the US states of Michigan and Ohio. According to the company, the group plans to invest one billion dollars into the sites by 2020. So welcome to the new future. Trade will be a heated topic as we move forward into 2020. However, neither the press nor government will grasp the real trend and what is causing the gradual decline.

The Impeachment of Donald Trump

People do not realize the extent of government corruption. This is not a matter of Democrats v Republicans. There is no difference. Unfortunately, both sides are turning this into the Super Bowl of politics and are desperate to get Trump out of office. Why? Because he is not one of them.

The Democrats are particularly in trouble. Their support base is declining as more and more people turn away from their Marxist agenda of always instilling class warfare. Instead of reviewing why they are losing ground on every level of political office, they are simply doubling down. The State of the Union Address revealed how the Democrats refused to clap for anything Trump had to say. That demonstrated it is not about the country, it is simply about opposing whatever the opposition has to say. This agenda is obstructive and highly dangerous for the nation as a whole. Herein lies the biggest threat to the financial markets.



THE WHITE HOUSE

WASHINGTON

February 2, 2018

The Honorable Devin Nunes
Chairman, House Permanent Select Committee on Intelligence
United States Capitol
Washington, DC 20515

Dear Mr. Chairman:

On January 29, 2018, the House Permanent Select Committee on Intelligence (hereinafter "the Committee") voted to disclose publicly a memorandum containing classified information provided to the Committee in connection with its oversight activities (the "Memorandum," which is attached to this letter). As provided by clause 11(g) of Rule X of the House of Representatives, the Committee has forwarded this Memorandum to the President based on its determination that the release of the Memorandum would serve the public interest.

The Constitution vests the President with the authority to protect national security secrets from disclosure. As the Supreme Court has recognized, it is the President's responsibility to classify, declassify, and control access to information bearing on our intelligence sources and methods and national defense. *See, e.g., Dep't of Navy v. Egan*, 484 U.S. 518, 527 (1988). In order to facilitate appropriate congressional oversight, the Executive Branch may entrust classified information to the appropriate committees of Congress, as it has done in connection with the Committee's oversight activities here. The Executive Branch does so on the assumption that the Committee will responsibly protect such classified information, consistent with the laws of the United States.

The Committee has now determined that the release of the Memorandum would be appropriate. The Executive Branch, across Administrations of both parties, has worked to accommodate congressional requests to declassify specific materials in the public interest.[1] However, public release of classified information by unilateral action of the Legislative Branch is extremely rare and raises significant separation of powers concerns. Accordingly, the Committee's request to release the Memorandum is interpreted as a request for declassification pursuant to the President's authority.

The President understands that the protection of our national security represents his highest obligation. Accordingly, he has directed lawyers and national security staff to assess the

[1] *See, e.g.*, S. Rept. 114-8 at 12 (Administration of Barack Obama) ("On April 3, 2014 . . . the Committee agreed to send the revised Findings and Conclusions, and the updated Executive Summary of the Committee Study, to the President for declassification and public release."); H. Rept. 107-792 (Administration of George W. Bush) (similar); E.O. 12812 (Administration of George H.W. Bush) (noting Senate resolution requesting that President provide for declassification of certain information via Executive Order).

The Nunes memo, which the FBI and the Democrats did not want to release, reveals truly how corrupt the Deep State has become. This confirmed that the FBI and Department of Justice abused their surveillance authority to target Trump's 2016 presidential campaign. This describes a criminal act on the part of the FBI – **FRAUD UPON THE COURT**.

White House made no redactions to the memo and declassified the document "in full." The release puts Trump at odds with the FBI Director Christopher Wray and Deputy Attorney General Rod Rosenstein, both who have urged Trump not to release it for fear that it just makes them look very bad. The entire affair they fear will undermine the confidence in government.

Republican Sens. Chuck Grassley and Lindsey Graham have released a declassified version of their letter requesting a criminal investigation into Christopher Steele, the former British intelligence officer behind the controversial Trump dossier which was paid for by Hillary and the Democrats.

Then there were the two FBI officials who exchanged text messages that showed a bias against Donald Trump. They were concerned about being too tough on Hillary Clinton during the investigation into her email server. The FBI then amazingly lost all their emails, which nobody believed was by chance. However, the Inspector General had copies they forgot about.

The missing text messages between FBI agent Peter Strzok and FBI lawyer Lisa Page, who were lovers, show that they were worried over what might happen if Clinton became president. "One more thing: she might be our next president," Page texted Strzok in February of 2016, right in the thick of the campaign.

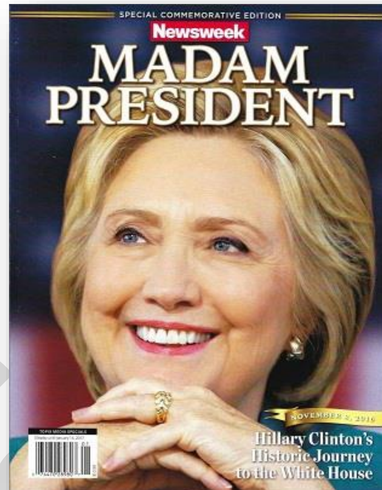
The Senate Homeland Security and Governmental Affairs Committee discovered that edits were made to former FBI Director James Comey's statement exonerating Hillary Clinton for transmitting classified info over an unsecured, private email server. The edits went far beyond what was previously known, as detailed in a letter from committee chairman Sen. Ron Johnson (R–WI) to FBI Director Christopher Wray.

James Comey
Fired former FBI Director

When Hillary was questioned by James Comey, he didn't even take notes. That is **NEVER** done and it was intentional to ensure she would **NEVER** be charged with anything. Mueller is clearly taking the direct opposite approach. He is obviously positioning himself to try to take Trump down on obstruction of justice since he cannot show he conspired with Putin. This is all about trying to impeach Trump, and it is in accordance with the totally arbitrary rules for impeachment that demonstrate there is no real rule of law in such matters.

Andrew McCabe
Former FBI Deputy Director

The letter revealed specific edits had been made by senior FBI agents when Deputy Director **Andrew McCabe** exchanged drafts of Comey's statement with senior FBI officials, including Peter Strzok. Strzok's direct supervisor involved in the missing emails. E.W. "Bill" Priestap, Jonathan Moffa, and probably DOJ Deputy General Counsel Trisha Anderson, coordinated conspiracy among top FBI brass to decriminalize Clinton's conduct by changing legal terms and phrases, omitting key information, and minimizing the role of the intelligence community in the email investigation. Doing so virtually assured that then-candidate Hillary Clinton would never be prosecuted. The degree of corruption at the highest



levels in the FBI and Department of Justice demonstrate that the confidence in government is indeed collapsing.

The Nunes memo lays out that the very top law enforcement officials knowingly used the unverified information to convince a court to give them a warrant to spy on the Trump campaign. This is no different from Watergate that took Nixon down. Here the FBI and DOJ used a court by means of **FRAUD** to accomplish the very same thing as what took place in Watergate. It explains a lot as to why Comey never took notes on the interview with Hillary.

Clearly, neither the initial written application nor the four renewal requests disclosed the DNC/Clinton campaign's role in paying for the opposition research, even though the FBI and DOJ knew about it.

The FBI expressed "grave concerns" about the memo's release, suggesting it is inaccurate. That is to be expected. They either told the source of their information to the court or they did not. All they need to do is come forward and prove that they did inform the court and the source of the info came from the Hillary campaign.

The FBI has stonewalled Congress' demands for information for nearly a year. They have had ample time to explain but have failed to do so. They are correct insofar as the release calls into question the integrity of the FBI and DOJ, but that becomes very obvious for months.

It's no surprise to see the FBI and DOJ issue objections to allowing the American people to see information related to surveillance abuses at these agencies. The corruption in the FBI and DOJ has infected the agencies right to the top and it is highly questionable that simply removing the head of agencies will change anything. The disease has run very deep.

What should happen is very clear. Those who argued before the court should stand for criminal charges. Then they will sing and you will get to the full scope of how bad this infection really has become.

This has been a war of Bureaucrats against Trump – make no mistake about that. He is not one of them and they only want career politicians in Washington. All others please get out. Robert Mueller is out to overthrow the White House if he can.

This is how corruption is played out in the **JUST–US Department**. It is never about ethics or the rule of law. It is about how to win at all costs on anything even when they are dead wrong. The probe that was supposed to be about Russia interfering with the US elections turned into charging people with tax evasion and everything other than the purpose of the probe.

Robert Mueller

There is just no rule of law anymore. James Comey and Robert Mueller are former Department of Justice colleagues, and they have a work–related friendship. That is not considered to be a conflict of interest. Both are just bureaucrats and like the police, they need not be best friends to have each other's back. There should have been ZERO contact. Working together is still a conflict of interest. Typically, even a CEO spends more time with his personal assistant than his wife even if there is no affair on the side. We all spend more time with the people we work with than anyone else. But of course, they do not consider Mueller working with Comey a conflict. Had he **NOT** known him at all, he would have charged Comey with leaking documents to the press which is also a felony.

Meanwhile, Senator Ron Johnson confirms that informant's text messages infer there are bias issues in the FBI against Trump. He confirmed also that others are saying they have additional information about a secret society within the FBI that is trying to sabotage Trump and take him down as an outsider. There is clearly a war going on inside the bureaucracy and it is all about keeping control in Washington.

Robert Mueller is trying desperately to build a possible obstruction case to take down Trump. There is no case for a conspiracy with Russia. Mueller is certainly not a fan of Trump as the rumors paint it in Washington. Nothing would crown his career more than taking down a president.

Trump is often his own worst enemy. He clearly does not understand the legal system. Granted, he knew there was no Russian connection. If there had been, it would have been leaked to CNN and it would be around the world months ago. Mueller, in my opinion, has abused his entire authority for he was charged to investigate a Russian connection. That failed, so he has to find something to do to justify all the money he gets.

Trump had ordered the firing last June of Mueller according to leaks. He eventually backed off after the White House counsel threatened to resign rather than carry out the directive. This is being called the "West Wing Confrontation" and Mueller learned about the episode in the process of interrogating former and current senior White House officials.

Mueller is examining a possible obstruction case to bring down Trump and chalk one up for the Bureaucrat team. This is the tremendous risk to the world economy including the share market. The real question is rather blunt. Is this now a personal vendetta since there was no Russian connection? If a special prosecutor is appointed to investigate a murder and the perpetrator is found innocent, should they then make a case against them for tax evasion just so they win something? Is that abuse of power itself? Seems to me Congress should be investigating Mueller for abuse of power.


Kenneth Starr
Independent Counsel Impeachment of Bill Clinton

During the Clinton era, we had independent counsel Kenneth Starr. Because Starr was an independent counsel, the argument was that he could indict Bill Clinton. Because of that legal question, the statue which authorized the creation of independent counsel was allowed to expire. Granted, some argue that there is nothing in the Constitution that would bar a federal grand jury from returning criminal charges against a sitting president for committing a serious felony. I am not entirely convinced that the absence of specific prohibition is an endorsement of the existence of such a power.

"When a statute limits a thing to be done in a particular mode, it includes a negative of any other mode." **Raleigh & Gaston R. Co. v. Reid**, 13 Wall. 269, 270 (1872). In this case, those who support indicting Trump argue that there is no prohibition and therefore that opens the door to indict. The Constitution expressively states that any trial of a President must be in the Senate. That would preclude the normal channels of criminal law including a Grand Jury.

Nevertheless, the criminal prosecution of anyone must be clearly defined and specified in advance by statute to provide notice that if you do this then that will result. "An indefinite criminal statute creates an opportunity for the misuse of government power" **US v Handakas**, 286 F3d 92, 107–108 (2nd Cir 2002).

In **Clinton v. Jones**, 520 U.S. 681 (1997), the Supreme Court did **NOT** decide two important questions:

1) whether a claim comparable to petitioner's assertion of immunity might succeed in a state tribunal, and
2) whether a court may compel the President's attendance at any specific time or place. Pp. 689–692.

In the **Clinton v Jones** case, the lower court ruled that the District Court's discretionary decision to stay the trial was the ***"functional equivalent"*** of a grant of temporary immunity. 72 F. 3d, at 1361, n. 9. They ruled that there was no constitutionally entitled immunity. The Supreme Court did not decide that question but it commented: ***"we think the issue is more difficult than the opinion of the Court of Appeals suggests."***

The Supreme Court previously held that a sitting President is subject to judicial process in appropriate circumstances. Thomas Jefferson disagreed with then Chief Justice Marshall, who presided over the treason trial of Aaron Burr and ruled that a subpoena duces tecum could be directed to the **President. US v. Burr**, 25 F. Cas. 30 (No. 14,692d) (CC Va. 1807). The Supreme Court upheld that precedent ruling that President Nixon was obligated to comply with a subpoena commanding him to produce certain tape recordings of his conversations with his aides, **US v. Nixon**, 418 U. S. 683 (1974).

Turning to the question of whether the Constitution bars indictment of a sitting president, there is no previous case that is directly on point. If we look at the debates of the framers, we can see that they did provide for a trial on a felony but only by Congress. They expressly stated: **"Senate shall have the sole Power."** That would preclude any Grand Jury indictment.

The Constitution, Article II, Section 4:

> The President, Vice President and all civil Officers of the United States, shall be removed from Office on Impeachment for, and Conviction of, Treason, Bribery, or other high Crimes and Misdemeanors.

The Constitution, Article I, Section 3:

> The Senate shall have the sole Power to try all Impeachments. When sitting for that Purpose, they shall be on Oath or Affirmation. When the President of the United States is tried, the Chief Justice shall preside: And no Person shall be convicted without the Concurrence of two–thirds of the Members present.
>
> Judgment in Cases of Impeachments shall not extend further than to removal from Office, and disqualification to hold and enjoy any Office of honor, Trust, or Profit under the United States, but the Party convicted shall nevertheless be liable and subject to Indictment, Trial, Judgment, and Punishment, according to Law.

The Constitution does not provide blanket immunity for a sitting President. Members of Congress enjoy **"privilege from arrest"** in civil cases when going to and from Congress and may not be criminally prosecuted for "any speech or debate" in Congress. Clearly, the President can be subpoenaed for the production of evidence and he can be deposed in a civil suit. However, there is more than just a subtle difference between Starr investigating Clinton and Mueller going after Trump. When Clinton was nearing vacating office, the Justice Department's Office of Legal Counsel ruled that the President could **NOT** be indicted. This actually restrains Mueller right now.

There is a significant difference between the Clinton prosecution and the immediate action to try to bring down Trump for the bureaucrats. Starr served as independent counsel under a statute that expired. Special counsel Robert Mueller serves directly under Justice Department regulations put in place after the independent counsel law expired. The difference is that Clinton could not fire Starr and Starr could indict Clinton, but that was probably unconstitutional. Mueller's power is under the Department of Justice and that means he is **NOT** independent and Trump could fire anyone who tried to indict him. The precedent of more than 100 years makes it very clear that that the President retains complete authority to control federal criminal prosecutions. Legally, Trump could fire Mueller but then Congress would probably act to impeach Trump.

Regulations that Mueller must comply with make it clear that he must obey **"the rules, regulations, procedures, practices, and policies of the Department of Justice."** He can be removed for **"good cause, including violation of Departmental policies."** Therefore, Mueller cannot indict Trump based upon internal rules alone.

In my "opinion," we have the internal rules that prohibit Mueller from indicting Trump. However, my reading of the Constitution and the debate behind Article II, Section 4 and Article I, Section 3, means that Mueller at best can only recommend impeachment to Congress and it is their **EXCLUSIVE** domain to impeach and put a President on trial. They cannot imprison him as their power is limited to removing him from office.

This would be my legal argument against Mueller if he dared to try to indict Trump. He is a power hungry and vindictive person out to protect the FBI and the rest of the bureaucrats, which makes him very dangerous.

Nevertheless, we must respect that the indictment of Trump would be to protect the bureaucrats. This will be a major coup on their part and will signal that all is finally lost in the battle against pervasive corruption. Capital would initially flee, but then it would rush back into equities as people lose total confidence in government debt.

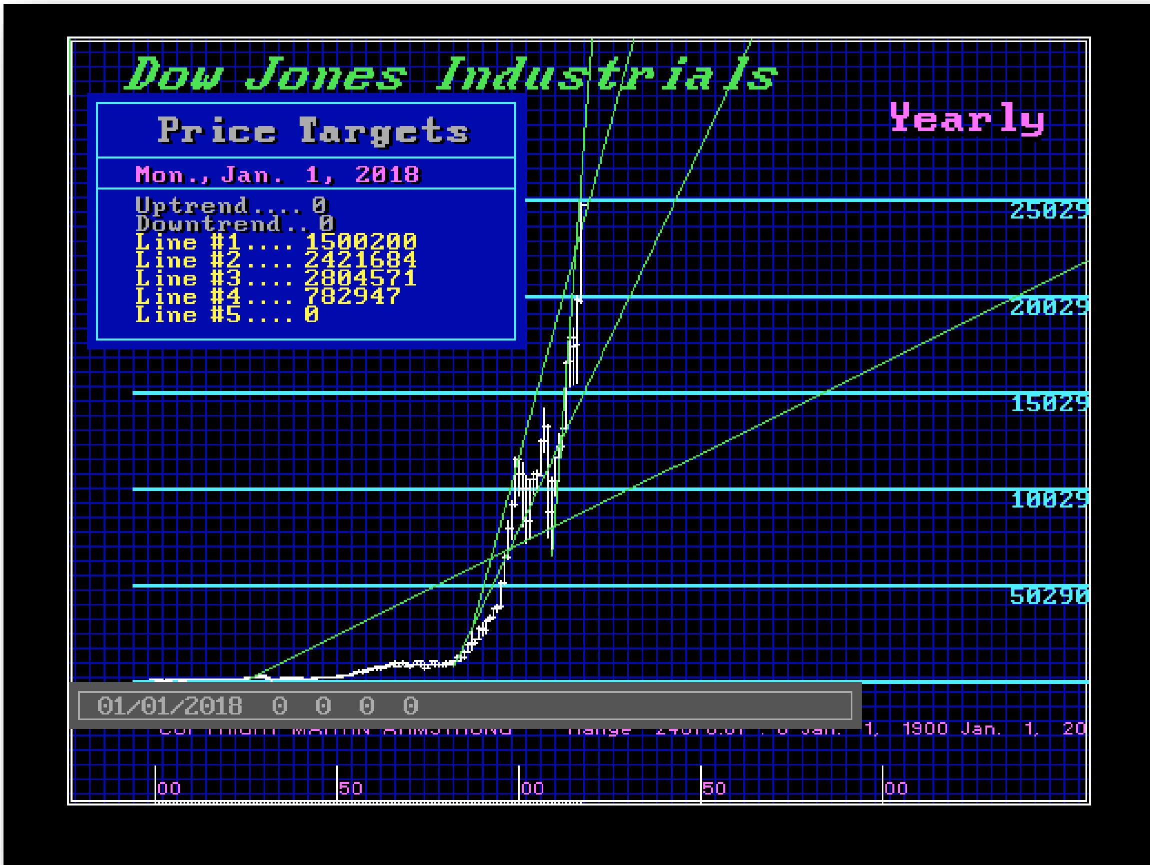
The 2018 Mid-Term Elections

The 2018 political elections will be the worst perhaps in history. The amount of money that will be thrown at winning the Senate for the Democrats will be staggering. This is an all–out battle, but make no mistake, a Democratic victory will indeed seal the fate of the future. They will push the nation over the cliff really fast and we should expect the Sovereign Debt Crisis to materialize and go nuts and they then turn to increase taxes dramatically in an effort to save the pensions of government employees.

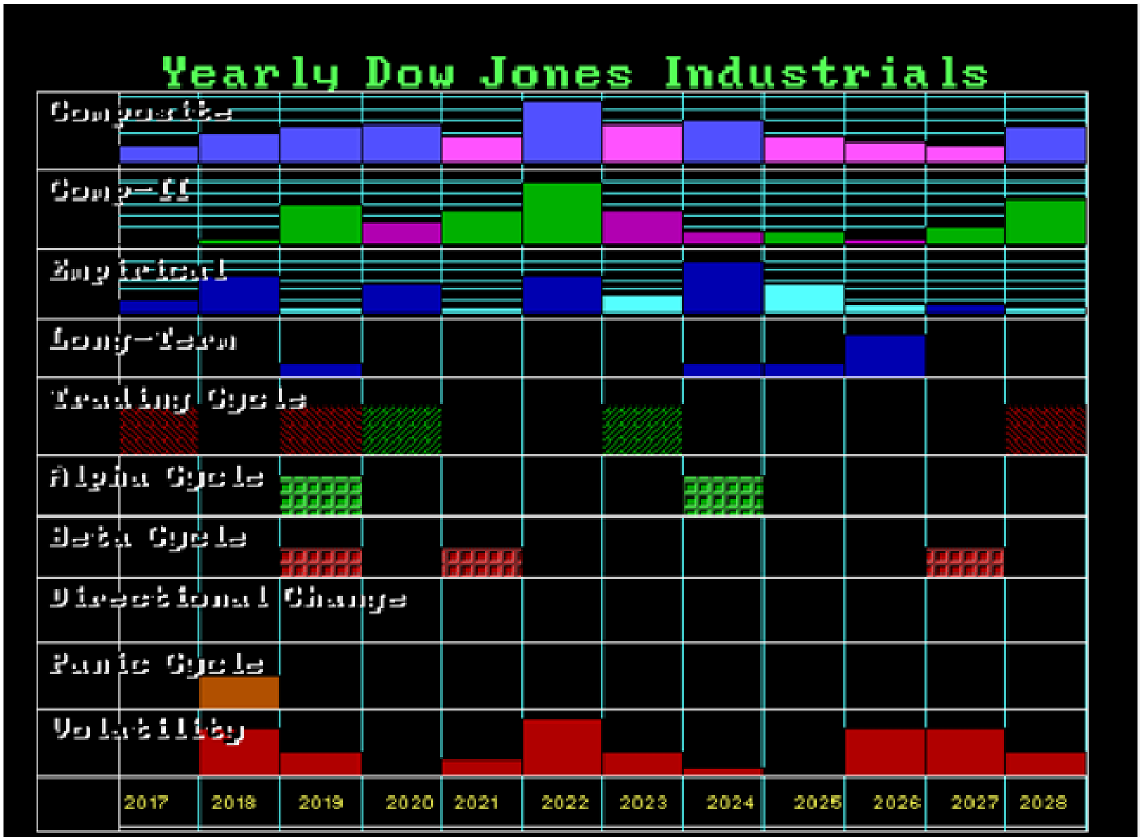
The prospects of Impeachment will grow for a trial will be in the Senate. That is where they will do their best to take down Trump and try to destroy the Republicans to then push the nation into a major class warfare agenda.

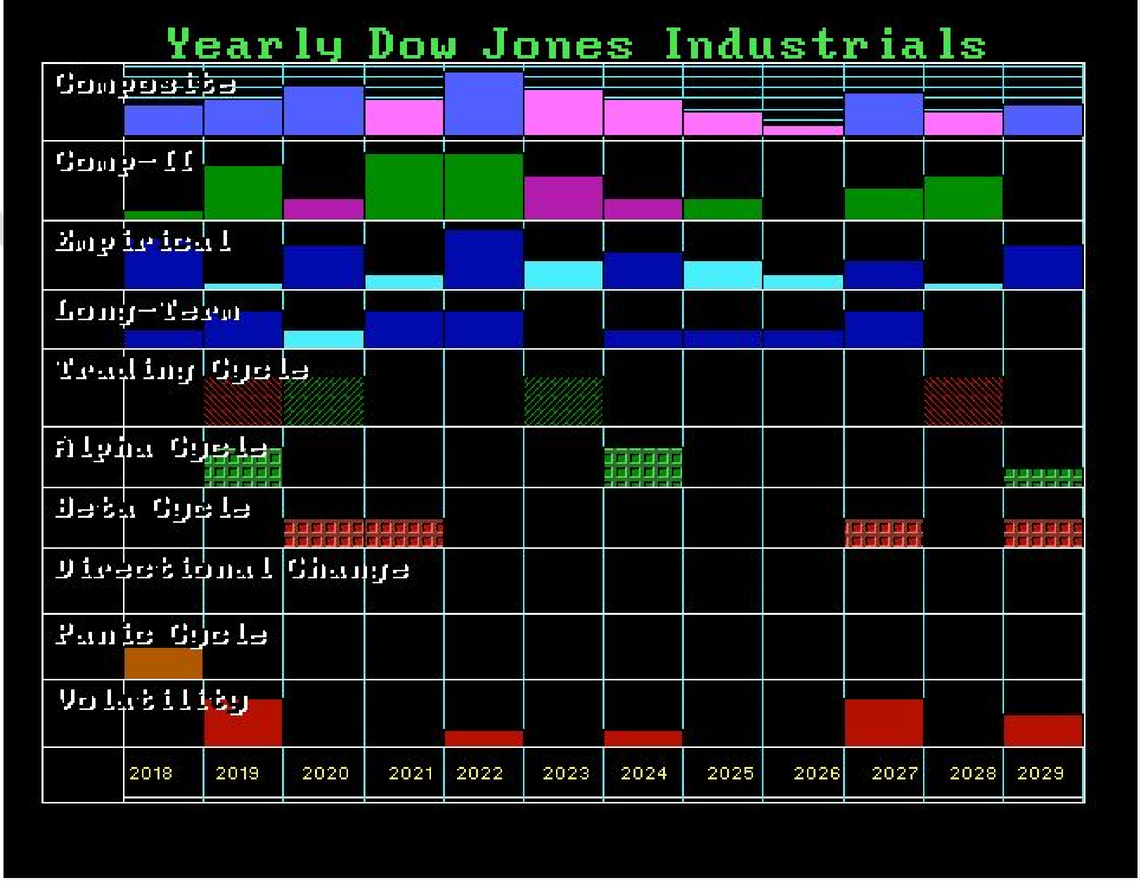
The only saving grace for the share market is the fact that the Democrats are always for sale. They will sell tax relief to the highest bidder as they always have. So welcome to the 2018 Mid–Term elections. We will be holding the WEC the week after.

Equity Long-Term Prospects



Back on October 14, 2014, we wrote on the blog: ***"This would be a tremendous rally, but it would come at the cost of a real serious collapse in the confidence of government. This may be what we are facing. Instead of a Phase Transition that doubles the Dow Jones from the 2009 low of 6,440 (12,000), which we have already achieved, we are looking at a rally into 2017-2018 with the Dow reaching the 25,000-28,000 level. That would be the minimum target objective. To match the rally between 1921 and 1929, the Dow would need to reach 39,482. We have been looking at a 4.3 rally (430%) which is half the 8.6-year frequency."***


Yearly Dow Jones Industrials
Composite
Comp-II
Empirical
Long-Term
Trading Cycle
Alpha Cycle
Beta Cycle
Directional Change
Panic Cycle
Volatility
2017 2018 2019 2020 2021 2022 2023 2024 2025 2026 2027 2028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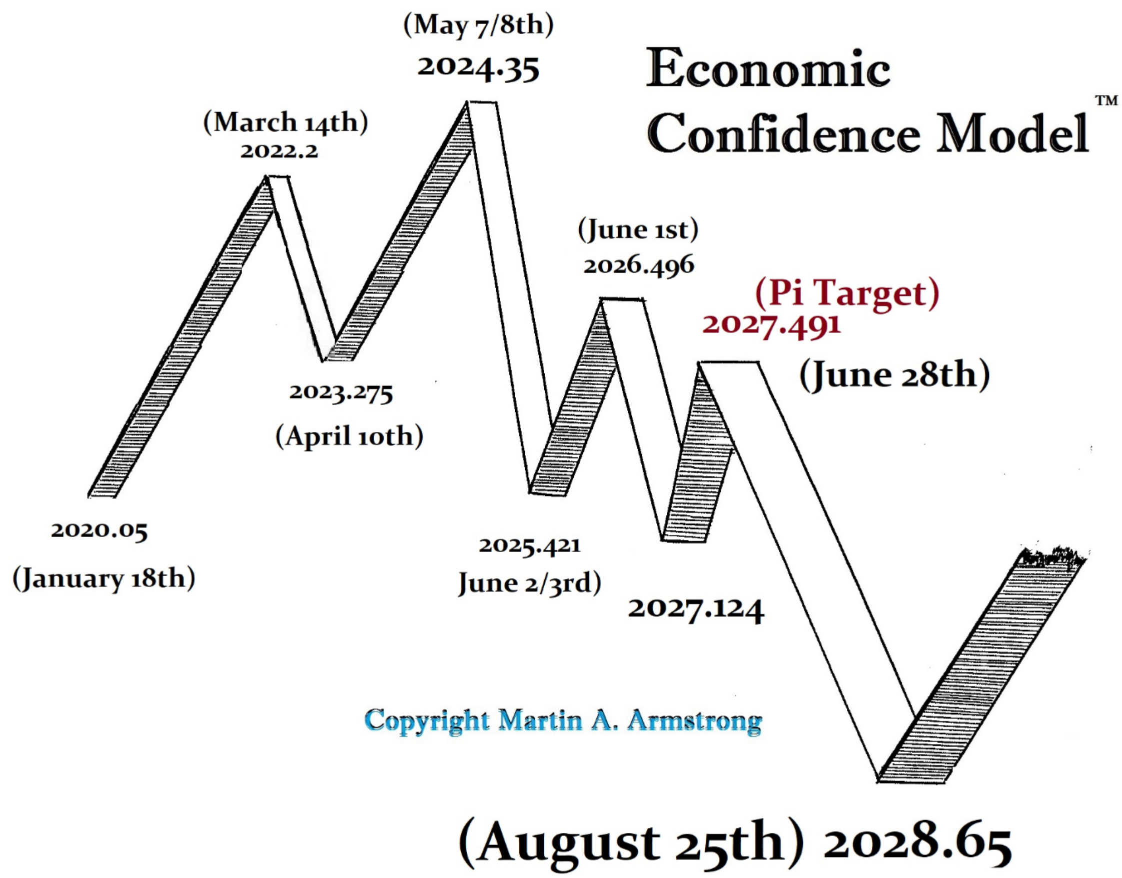
Here we have two Yearly Forecast Arrays. The top one was generated at the end of 2016 and the lower version was generated at the close of 2017. We can see that 2018 was due for a Panic Cycle Year on both versions. We can see that turning points are due 2020 and 2022 which remain the important near-term targets for highs or lows.

Note that is the top array generated back in 2016, that there are three bouts with volatility – 2018, 2022, and then 2026-2027.



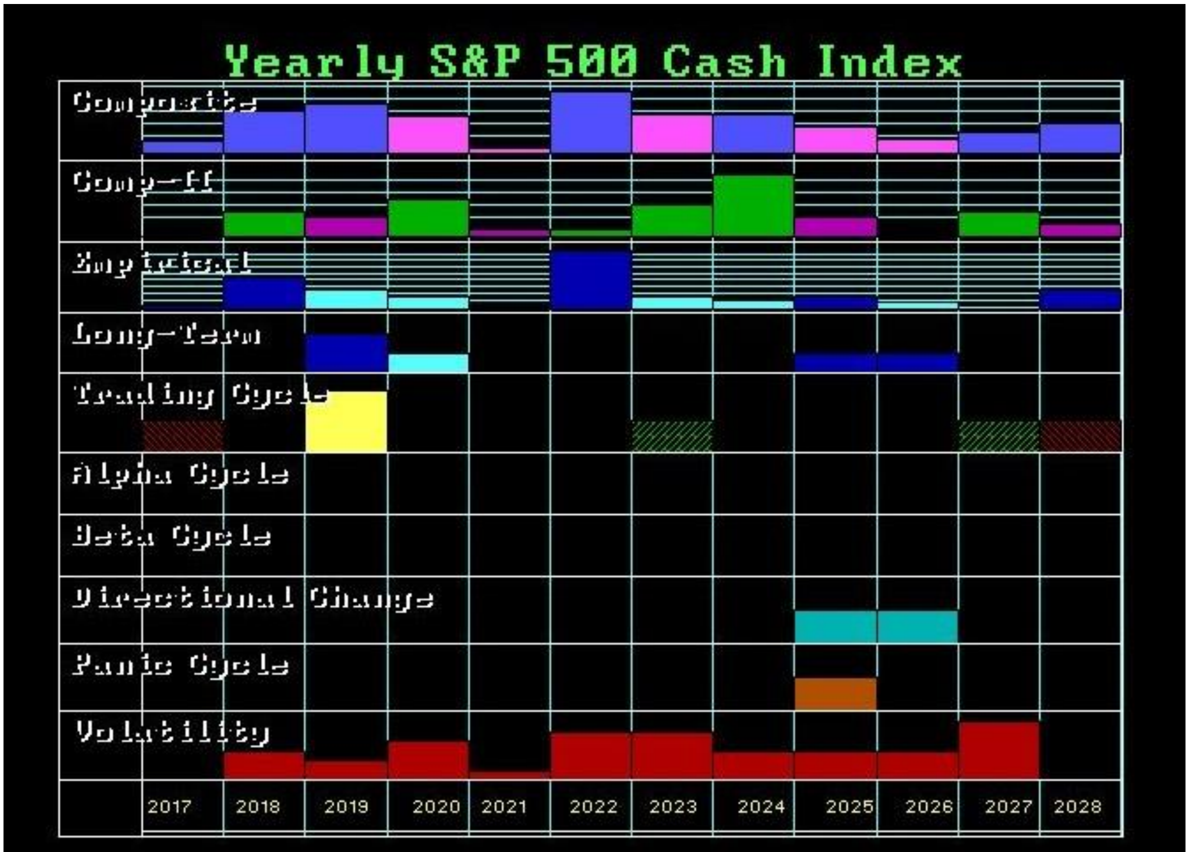
We can see 2024 was a target which remains so on the Empirical Model. However, note that it is also the peak of the next 8.6-year wave on the Economic Confidence Model. Thereafter, a change in trend will unfold in 2027 and it should be off to the races into 2032. That is where we see the major record high, but it can be a high in terms of currency and a complete new monetary system takes hold thereafter so how we measure highs will be different.

The key resistance in the Dow was at the 23,500 level during 2017, which extended up to 28,000 for 2018. Ultimately, the Dow should move up to test at least the 35,000–41,000 level as soon as 2021/2022. A correction is possible then, with a turn to the upside once again going into 2032. Assuming we reach near the 40,000 level by 2021–2022, then we are probably looking at 60,000—65,000 by 2032. Keep in mind that a correction from 2018 into a low for 2020, clearly extends the cycle pointing to an ultimate high in 2032.

While our longer-term yearly timing models are pointing outward in time to 2020 and 2022, we have been warning that also 2018 would be a **Panic Cycle**. The technical support for a **Panic Cycle** at the extreme would be 18044.67, which is just below the 2017 low of 19,677.94. We must keep in mind that 2017 could produce a temporary high on an annual closing basis with a drop down in 2018 in a **Panic Cycle** move. We **CANNOT** rule out such a decline, which would surely then convince everyone that a crash is unfolding. Once again, such a pattern would extend the cycle into 2032.

Now look at the distinctly different pattern we have in the S&P500 compared to the Dow. The two previous highs were very flat between 2000 and 2007 in the S&P500. In the case of the Dow, the 2000 high was 11750.28 and the 2007 high was 14198.10. Now look at the same two highs in the cash S&P500, which were 155287 in 2000 and 157609 in 2007. We can easily see how the Dow has been the leader when the 2007 high was 20.8% above 2000 compared to 1.49% in the S&P500. The NASDAQ never exceeded the 2000 high until 2015. The fact that the Dow has led the way reflects international capital inflow compared to the domestic focus of the S&P500.

Because of the flat technical support in the S&P500 compared to the Dow, this also technically warns that we could penetrate the 2017 low yet survive to make a **Slingshot** back to new record high once again. In the S&P500, the Yearly Bearish Reversal defines most likely the maximum potential decline. This lies at 142615 compared to 153400 in the Dow.


Yearly S&P 500 Cash Index
Composite
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Trading Cycle
Alpha Cycle
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Directional Change
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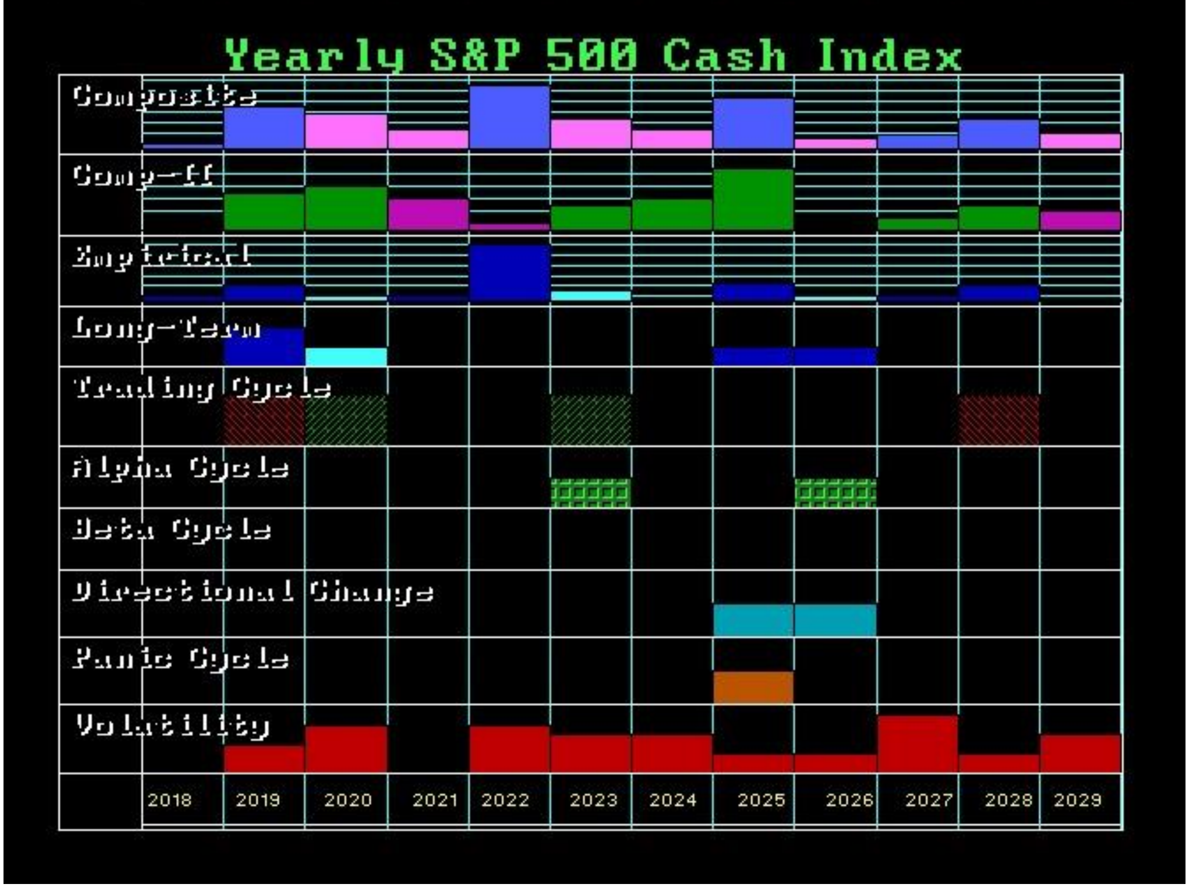
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When we look at the Yearly Forecast Arrays for the Cash S&P500, it shows that 2018 starts a shift but 2019 is more of the turning point and a move into 2021 with a sharp spike into 2022 and high volatility.

We see a Panic Cycle is due 2025 and this coincides with two back-to-back Directional Changes in 2025 and 2026. When we look at the Dow, we do not see Directional changes at that time, but we do see a sharp rise in Volatility main in 2027.

When we look at the recent collapse into the Week of February 5th, the cash S&P500 fell by 11.84% compared to a 12.2% drop in the Dow Jones Industrials. This implies there has been a slightly more withdraw in big capital compared to the domestic oriented money.

When we look at the Gallup Poll, we see that despite all the crazy claims that the market is overbought and has been a bubble, we find that retail participation has actually declined after the 2007–2009 Crash and remains very low. U.S. stock ownership has declined to 54% of households compared to 62% before the 2007 Crash. This demonstrates that the retail market has still not come back yet which defies the classification of a bubble.


GALLUP News Business Politics World Education Social & Policy Issues Well-Being

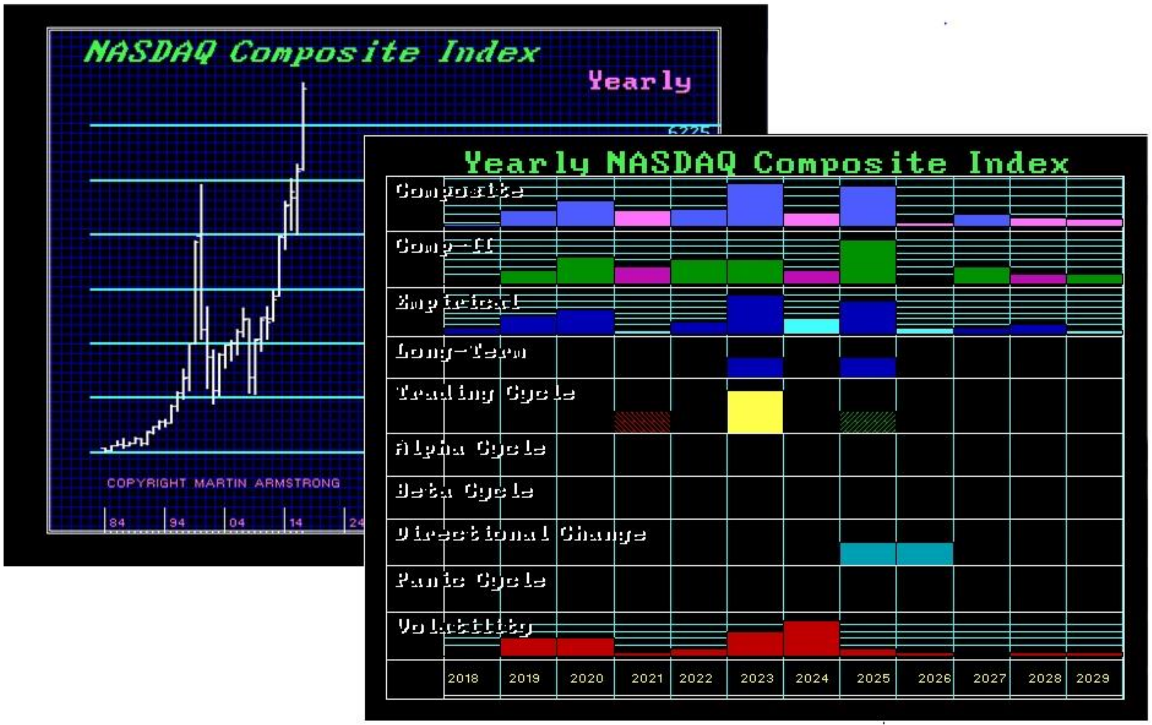
ECONOMY MAY 24, 2017 PRINT

U.S. Stock Ownership Down Among All but Older, Higher-Income

THE AVERAGE PERCENTAGE OF AMERICANS WHO OWN STOCKS

2001 TO 2008	2009 TO 2017
62%	54%

GALLUP



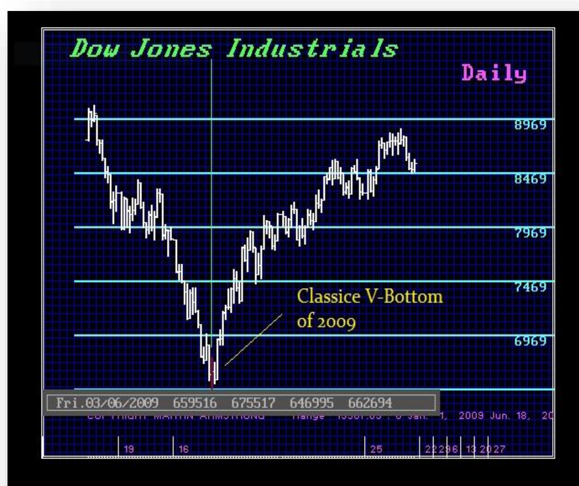
Now when we look at the NASDAQ, we show 2020/2021, 2023 and 2025 as turning points with high volatility in 2019/2020 and 2023/2024. This again helps to hone in a bit more when we look at all three indexes keeping in mind that NASDAQ is very retail, S&P500 tends to be more domestic investors retail and professional, with the Dow representing the big international money.

Note once again 2024 with the rise in volatility and 2025/2026 with back–to–back Directional Change Targets. Clearly, if we see the NASDAQ close below the 2017 low at the end of 2018, then we would look for a 2020 low.

In the case of the NASDAQ, we elected **ALL FOUR** Daily Bearish Reversals from the high on January 26th. We also elected all **FOUR** Daily Bearish Reversals in the Cash S&P500 as well as the Dow Jones Industrials. We also elected **TWO** Weekly Bearish Reversals in the NASDAQ as well as in the Dow. We only elected **ONE** Weekly Bearish in the cash S&P500. This is clearly warning that we do have a correction in play. A Monthly Bearish Reversal lies at 617617 and a closing below that will signal a drop to test at least the 523800 level. The 2017 low was 539799 and here too we see that a 2018 closing beneath that level will warn of a low in 2020.

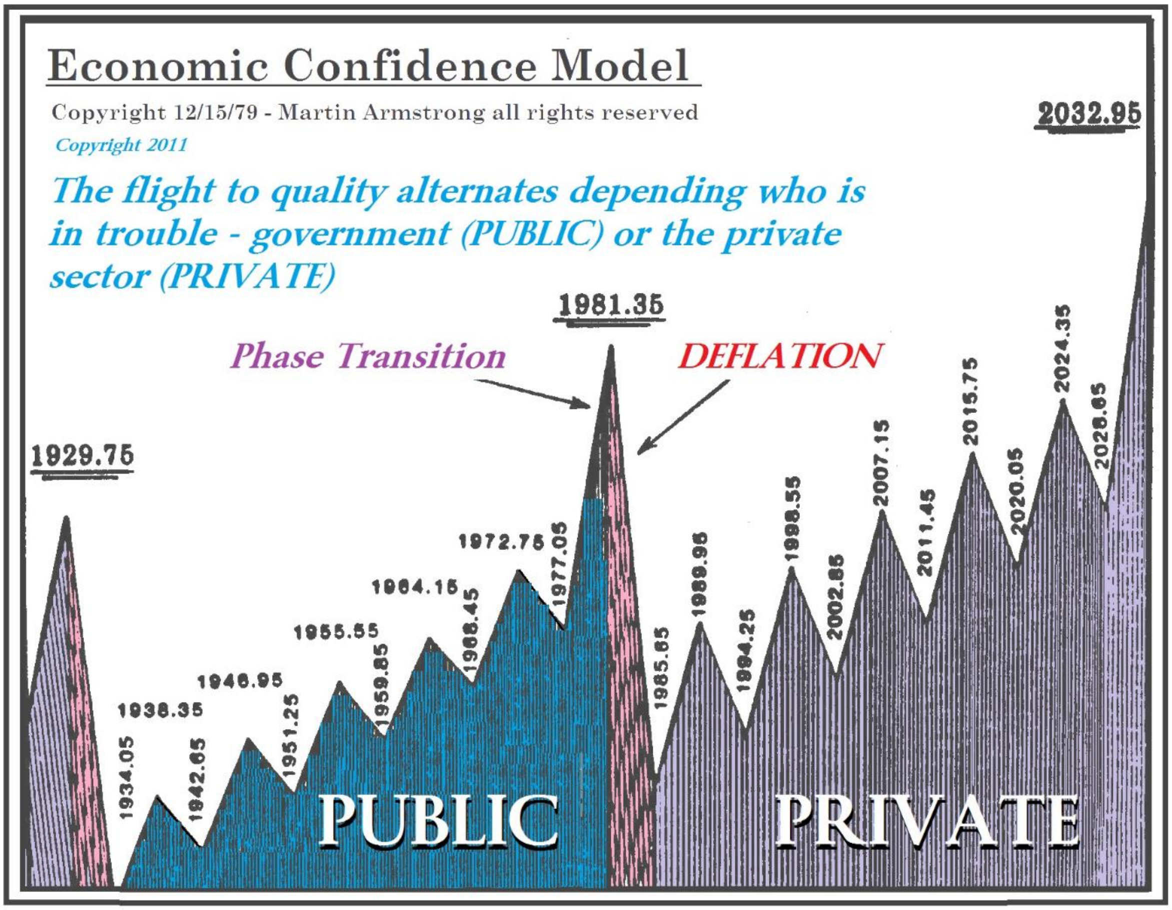
The Slingshot

We must comprehend that we are dealing with a **VERTICAL MARKET** and that means we should not be surprised by a dramatic **Slingshot** coming out of the **Panic Cycle** low. If the Dow does break the 2017 low, then just as people try to figure out what is happening, everything could easily flip forming a **Slingshot** to the upside rather dramatically. This may signal a high as early as 2022, but it could be off into 2024. This type of pattern would put the Dow at our next minimum target of 28,000 area rapidly and exceeding that we would then move to the 32,840 or 37,634 by 2022.



Keep in mind that retail participation is still way too low at this point in time to create a major **Bubble Top** in the classic a **Phase Transition** right now. This means we could set up a bear trap given the extensive bearishness that exists out there currently. That means we could move down from 2018 get everyone convinced it is all over once again, then trap the bears and flip to the upside screaming higher in a **V–type** bottom.

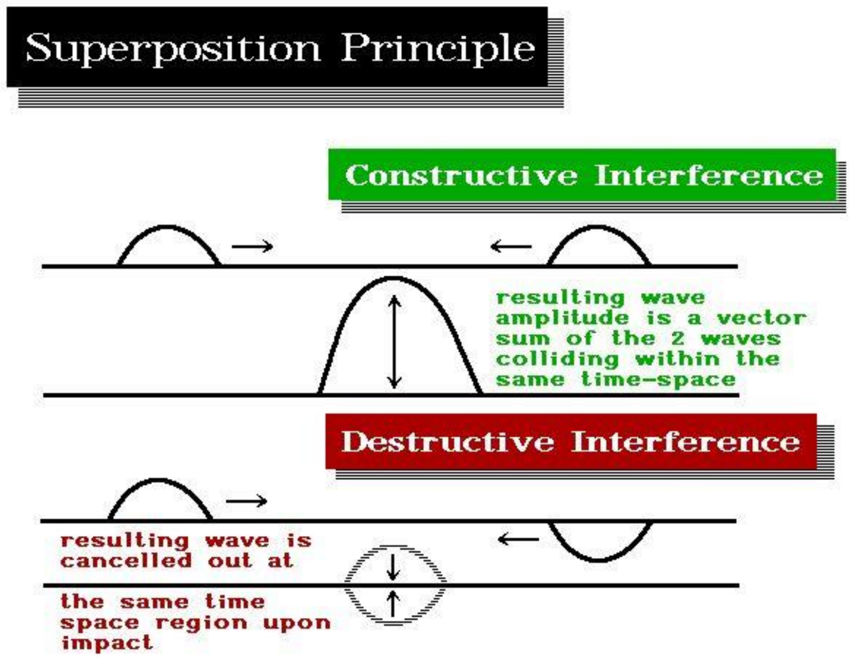
Keep in mind that from, the 2009 low, the last bear trap, the Dow Jones Industrial Index rallied rapidly because of major shorts.



As stated previously, 2017 which could be the highest yearly closing initially, was 43 years up from the 1974 low, which was 42 years from the 1932 low – very symmetrical pattern. Then when we look at 2018, this year will be 86 years from the 1932 low. Then 2018 is also 31 years (Pi) from the 1987 Crash warning that this is a focal point for a correction. On top of this, it is also 37 years from the peak in the last **Economic Confidence Model** in 198, which was the historical high in interest rates. None of these targets imply the end of a major bull trend. Instead, they do warn of at least a temporary high is possible and a correction here from a January 2018 high was the ideal target. We suspect we are looking at 2024/2025 as the first possible real major high ahead of 2032.

Therefore, 2018 fits on many levels for a pause in the uptrend. Whether this unfolds into a 2020 Low or we move into the second-half of 2018 to start a

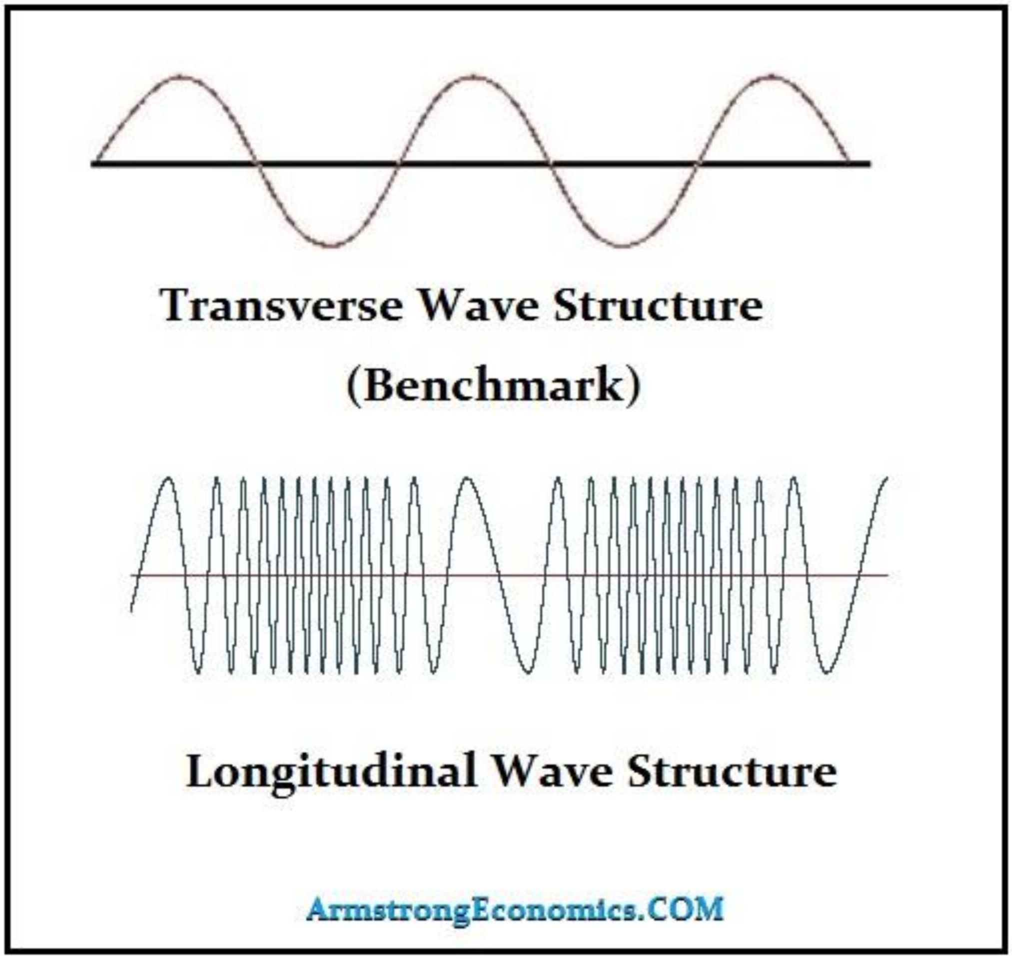
Slingshot to the upside by means of a profound **Cycle Inversion**, will be determined by the **Reversals**. Keep in mind we are dealing with a Vertical Market and that means we must be on guard against **Cycle Inversions**. Yes, a collapse in Europe politically will send capital fleeing into the dollar. Does it go to cash or equities?



Cycle Inversion

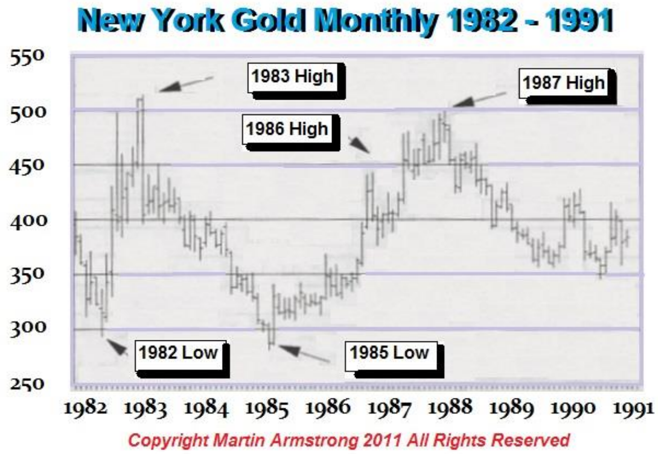
Cycles are turning points in time. You cannot always ascertain what the event will be a high or a low near-term. However, it is a turning point producing an event. Normally, you can predict it will be a high or low based upon the price action going into the event. Looking ahead even decades is sometimes easier.

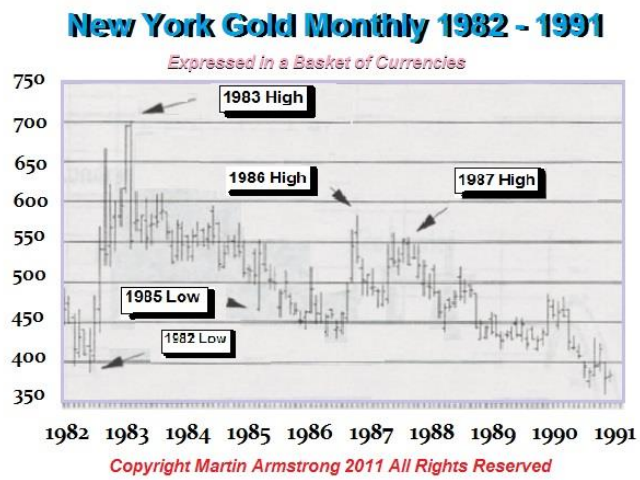
Nevertheless, CYCLES are far more complex that cyclical analysts typically forecast. The problem stems from a global correlation perspective and this produces a Superposition Principle whereby cyclical forces coming from different markets collide and sometime produce the opposite result of cancel each other out.



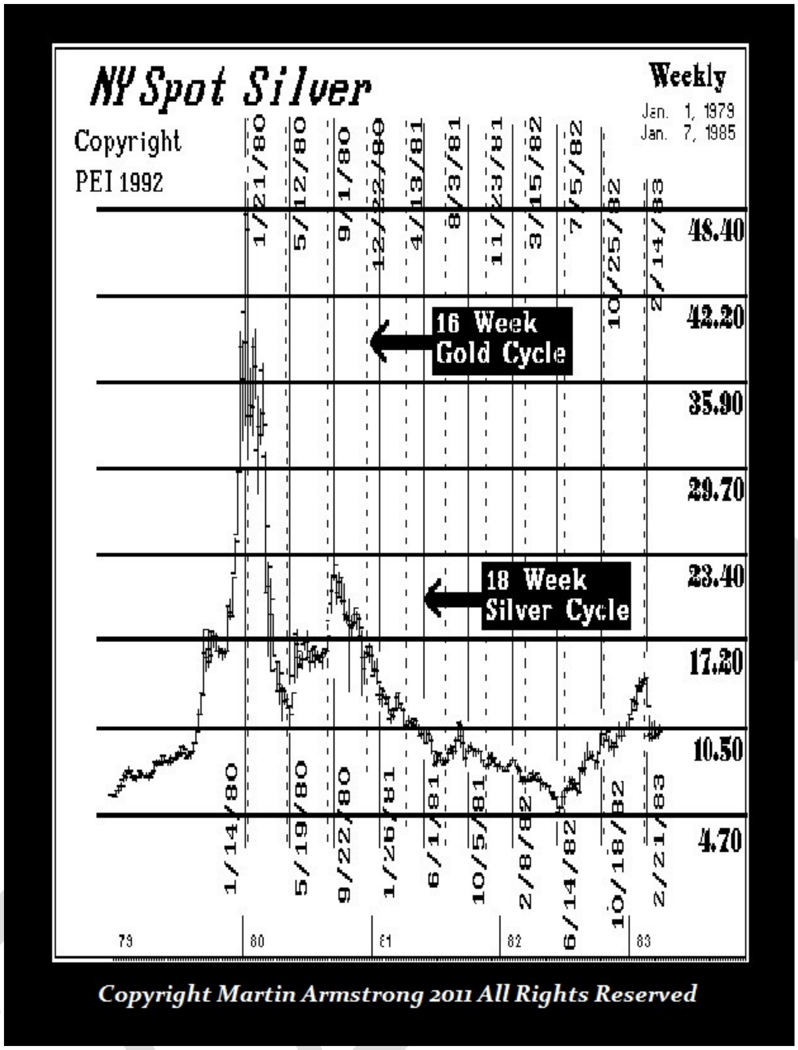
On top of that, there are two distinct types of cycles. Nonetheless, both are moving within every market simultaneously. This also makes it complex and it takes significant computing power to isolate each instance within a market and then we have the same thing from external forces colliding. Hence, understanding the Cycle Inversion process is critical to understanding how markets move and the global economy as well.

There are also always counter–trend reactions. Reactions have nothing to do with the magnitude of the change in trend. This is simply how markets trade. They will always rebound in a decline and fall in a rally. In both cases, they are normal cyclical events to retest the support of resistance on the opposite side of the trend.





You peaked in September 1929 and bottomed July 1932 fulfilling the 34.4 (4 * 8.6) month cycle, which also produced a 3-year reaction to the downside. We can also look at gold where in 1980 it appeared that at the very least there would be a bear market for 5 years However, the probability of a 19-year decline was quite high given how everything was set up in the broad spectrum of markets. Still, notice that the bulk of the drop was 1980-1982, which was the 2-year reaction, but the 3rd year was a high 1983. That was the kiss of death warning that an inability to rally beyond 1984 pointed to a 5-year bear market which it did on point for 1985. Gold then rallied with the decline in the dollar, but it was not making new highs in Japanese yen or German Dmarks. That signaled lower lows ahead and everything pointed to 1999. True bull markets must rise in terms of ALL currencies – not just the local currency. This will also contribute to Cycle Inversions caused by external currency flows.

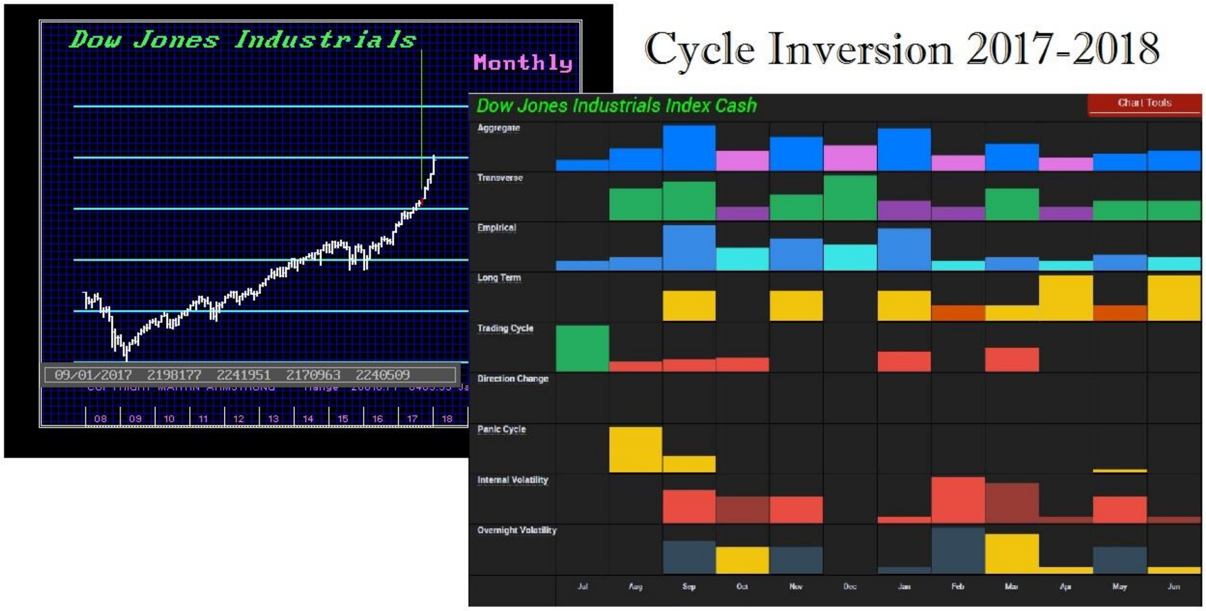


There **MUST** be a **Cycle Inversion** that takes place going into the end of this 51.6 Year Wave on the Economic Confidence Model. If you do not understand cycles, you better start paying close attention. This is a chart of silver. It has a fixed benchmark cycle of 18 units. During the bull market, each target produced a high. Once the high was in place, the cycle **INVERTS** whereas what use to produce highs flips and produces lows. The target dates **NEVER** change – only what is produced!

Cycles are moving in every market on a multi-dimensional level. In other words, there are cycles within cycles and when they converge, you get the **Superposition** outcome.

On November 30th, 2017 on the Private Blog we wrote:

> ***"Ideally, this week should form a turning point. The Directional Changes on the Daily level begin today and peak tomorrow. The market now has a choice. We either get the pull back and create a bear trap, of we simply move into a Cycle Inversion, which is common in VERTICAL MARKETS.***
>
> ***A Cycle Inversion simply means that what should have declined flips and inverts into a rally. The turning points are the same, they simply produce successive highs. This would be indicated if we continue to see new highs AFTER this week. Then if 2018 OPENS above the 2017 high, as they say, all hell will break lose."***
>
> ***"… We must respect that exceeding the November high now in December on a sustained basis, points to a January high. If we pull back, then January will be a low and then watch-out for a sharp rally into March."***



Now, look at the turning points on a monthly basis. We had September and November of 2017 followed by January 2018. In a normal market, each should have produced the opposite of the previous. September began the breakout and the **Cycle Inversion** process. September closed at 22405.09, which was the first closing above 22000. Once October exceeded the September high that clearly established that November should produce a high and a **Cycle Inversion** was underway. When two events in a row produce the same direction, it is a Superposition Event so the advance should have been greater than a normal wave. Then, we warned that exceeding the November high during December meant a January high was lining up and we would most likely reach the original target we gave on October 14^{th}, 2014 of 25000–28000.

Therefore, as illustrated in the Silver, when the cycles keep producing highs rather than opposite turning points, then we are moving into a **Cycle Inversion** and that will normally lead to an important temporary high. What we now need to see is the next turning points being March and May. If they produce the same event as lows, then we have a correction unfolding. If they produce highs, then we may be looking at the Slingshot beginning during the second half of 2018. That would infer a 2020 high instead of a low.

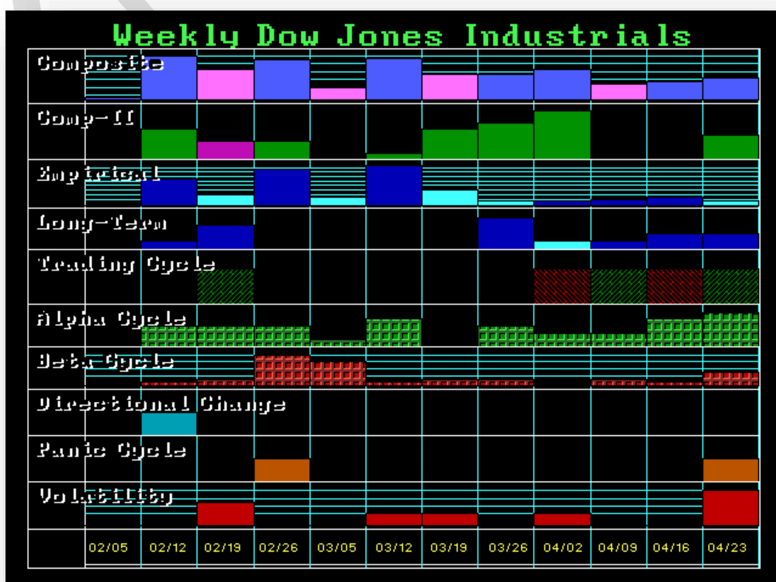
A March 2018 Low

So, what happens if we get a March 2018 low? If we have indeed made a new low under that of February, then our **What–If Models** indicate that we would have a Monthly Bullish Reversal around 23490. Therefore, a low in early March with a subsequent monthly closing back above 23490 would then warn that we may not see a 2020 low and we could in fact witness a **Slingshot** beginning during the second half of 2018.

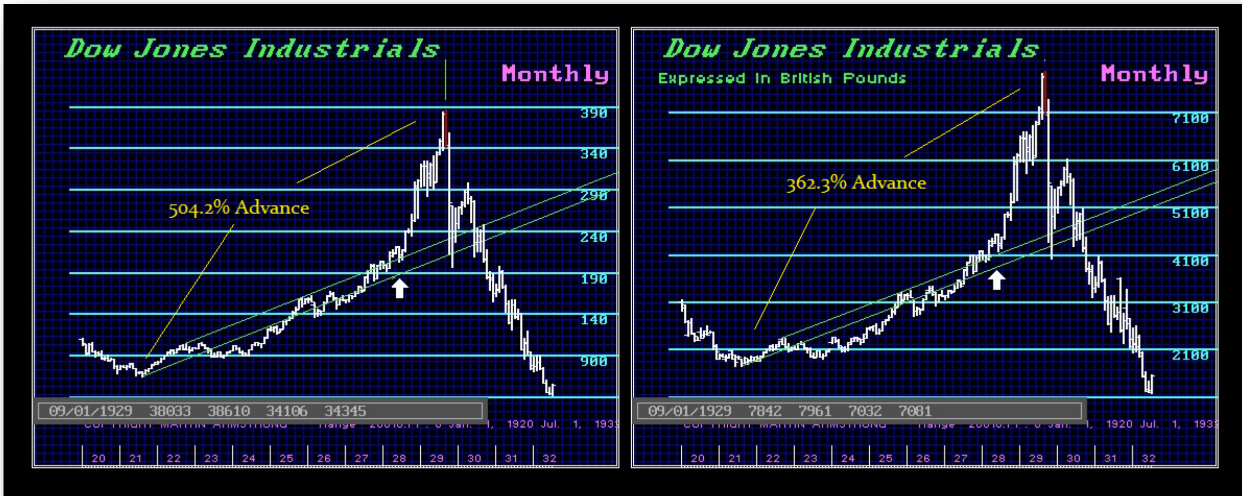
Only if March exceeds the January high and does not close lower than February, then we may see that the **Cycle Inversion** is still unfolding. Again, if two targets in sequence produce the same event, then we are dealing with a Cycle Inversion. This would clearly warn that 2020 may also invert and produce a high instead of a low.

What If February is a Knee Jerk Low?

There is always the risk of February being a Knee Jerk Low. This would be confirmed by a Monthly Closing back above 24329. Achieving that closing for the month-end would tend to warn we are headed up into March.



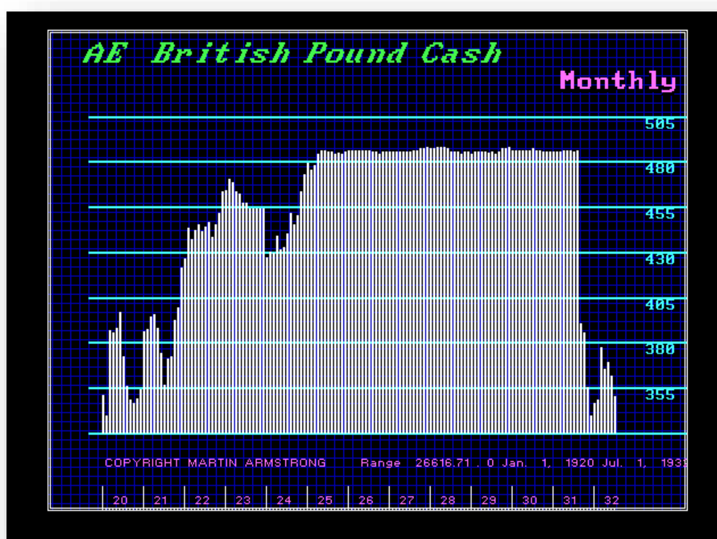
A Weekly closing above 25300 during the course of February would also warn that February may prove to be just a Knee-Jerk Low. That I define as a one-event move. These are often violent, but confined to just one day, week, month, quarter, or year. Reactions are 3 units of time or less and moving beyond that signal a change in trend for a short time at the very least. We can see it will be a bit choppy near-term.

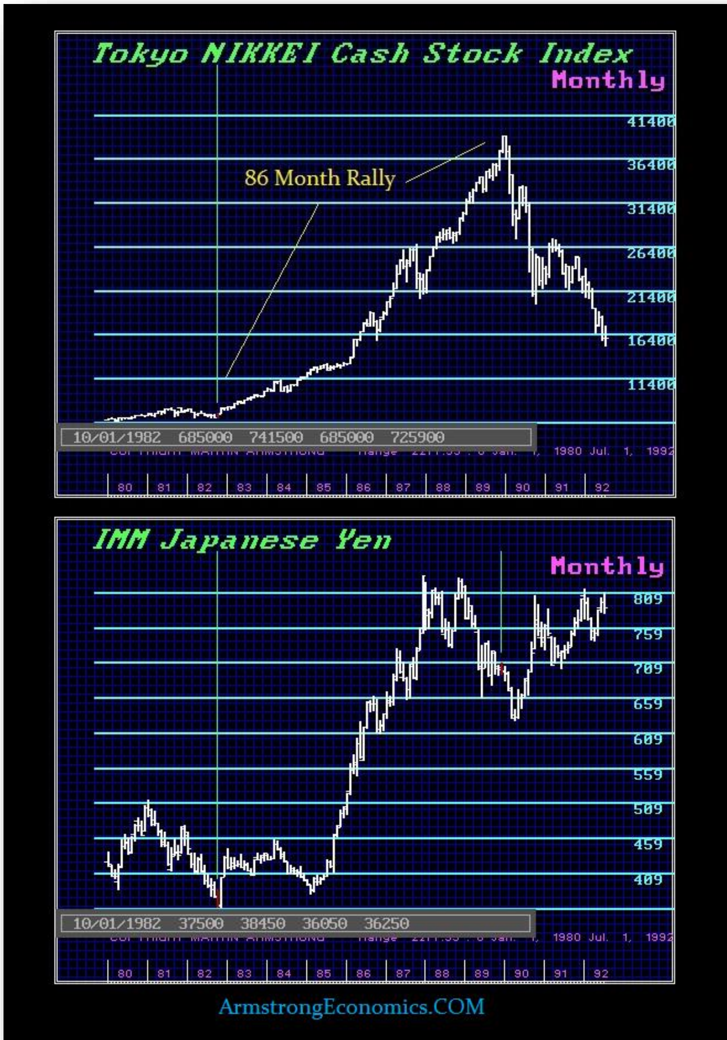


Understanding International Value – Currency View

I have repeatedly stated that the test of a **REAL BULL MARKET** is something that rises in terms of all currencies. Otherwise, a market which rallies only in local currency is merely assets readjusting to the drop-in currency value in accordance with international value. Here we can see the famous Roaring '20s Bull Market. This posted an advance of 504.2% in US dollar terms. In British pounds, the market still advanced 362.3% despite the fact that Britain returned to the gold standard in 1925 trying to fix the value of the pound to its former glory.

Obviously, here we have the dollar actually declining against the pound because of fixed rates, yet capital inflows to the USA were enhanced. Even with a rising pound, the Dow made new highs. If we look at the same technical analysis, the Dow in pounds was performing stronger from 1927 onward.





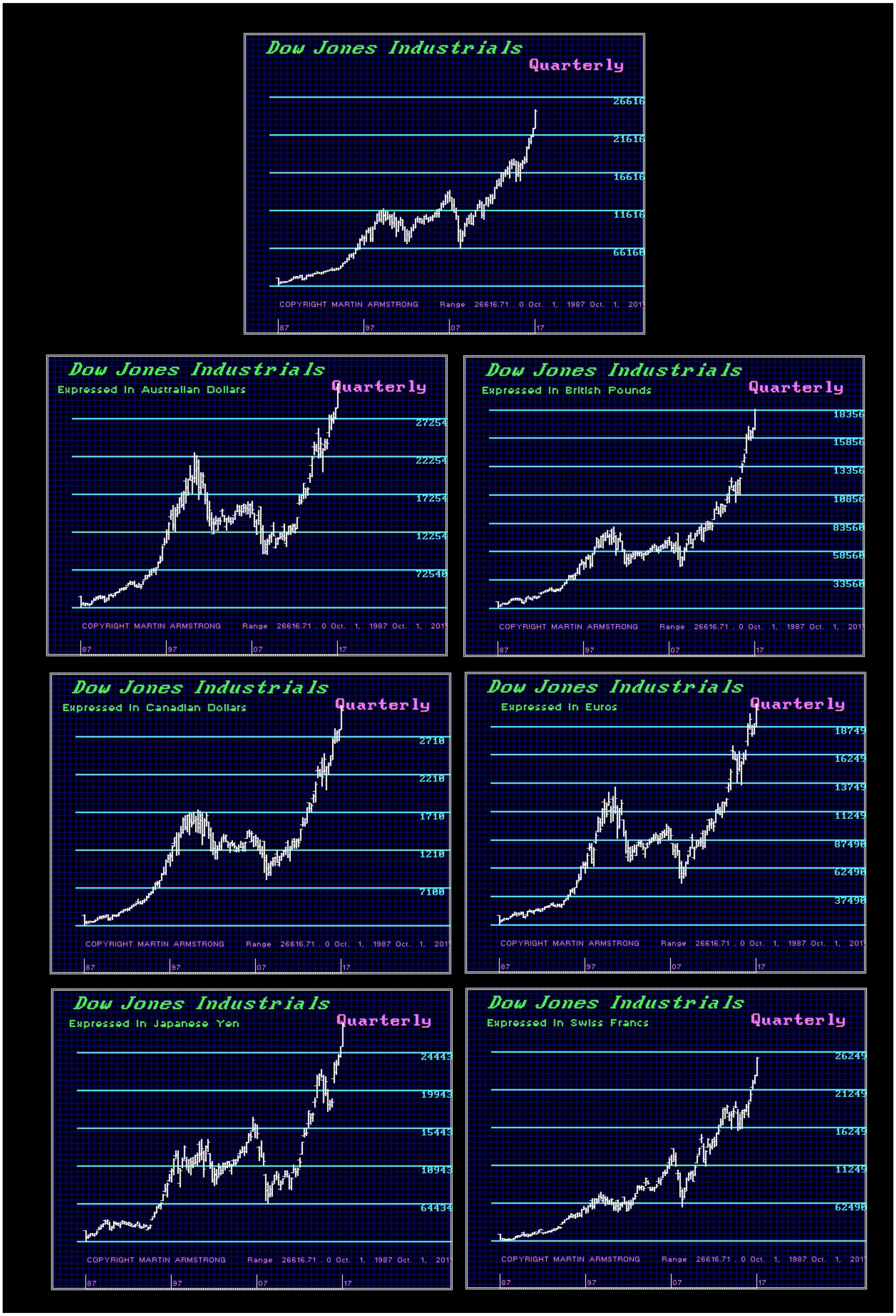
The Japanese Bubble bull market in the Nikkei was 86 months in duration beginning from October 1982. While we have exceeded that amount of time from the 2009 low in the current US bull market, note that this was a Bubble in Japan took place **BECAUSE** the market was rising with the currency and that attracted all the foreign investment.

We see the rally began from October 1982 in both the share market as well as the Japanese yen. This is absolutely critical to comprehend. A share market will rise as the hedge against the collapse in a currency since tangible assets have an **international value** provided the country is not being invaded. However, a rise in a currency and share market reflects international investment capital pouring into a country. It is this type of alignment between tangible assets and the currency value that produce the **GREATEST BUBBLE TOPS** in history. Therefore, we must always differentiate the type of rally we are witnessing by the capital flows and currency.

If we look at the current situation, we immediately notice that the low of the market during March 2009 took place with a massive dollar rally. The dollar then backed off and consolidated until July 2014 when it began to break out to the upside profoundly.

Then July 2014 saw the Ukrainian military begin an aggressive campaign, using airstrikes to back up ground troops. ISIS changes its name to the Islamic State and declared the territory in Iraq under its control. President Obama announced new sanctions against Russia due to increased tension between forces in Ukraine and pro-Russian separatists along the Ukrainian border, and for the third time in 25 years, Argentina defaulted on its debt.

All of these fundamentals led capital to simply rush into the dollar. Then as the problems with the EU began to emerge in the months ahead, the capital flows continued to shift to the dollar. Likewise, Chinese capital outflows then kicked in adding to the dollar rally. All of this has contributed to a rising bull market in the dollar and the share market warning that in the final run, we are most likely going to see a major concentration of capital in the United States suggesting that a potential bubble top in the years ahead becomes possible. Or is there something else lurking behind the curtain?


Dow Jones Industrials
Quarterly
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COPYRIGHT MARTIN ARMSTRONG Range 26616.71 . 0 Oct. 1, 1987 Oct. 1, 201
87
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Dow Jones Industrials
Expressed In Australian Dollars
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Dow Jones Industrials
Expressed In British Pounds
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COPYRIGHT MARTIN ARMSTRONG Range 26616.71 . 0 Oct. 1, 1987 Oct. 1, 201
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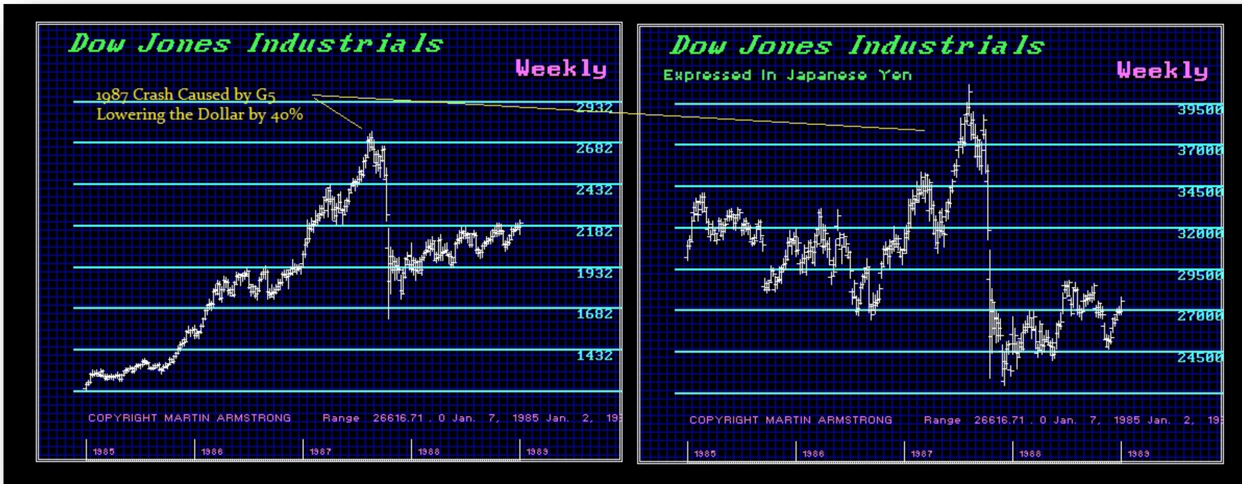
Here we have the Dow in quarterly charts express in six major currencies plus the top chart in nominal dollar terms. We can easily see that the Dow has actually risen stronger in terms of world currencies than it has in nominal dollar terms. This is also why the Dow has led the way up.

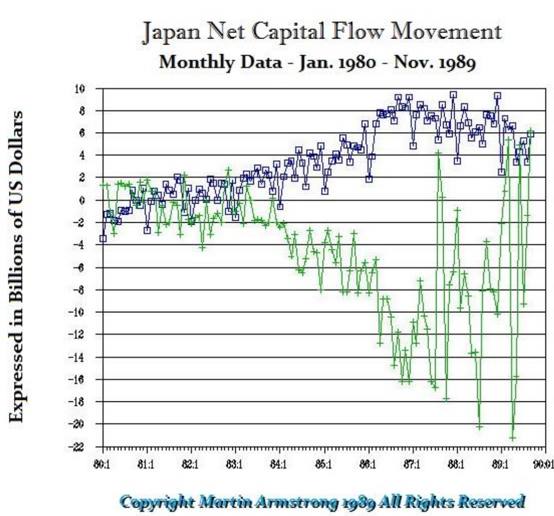
To the left are the three main indexes – Dow, S&P500 and NASDAQ. You can easily see that the Dow has led the rally reflecting that the Dow was being driven by foreign capital inflows.

I have stated many times that it is the true **International Value** that drives a market during real bull markets. Absolutely everything has an **International Value** and people will compare these values in terms of their home currency.

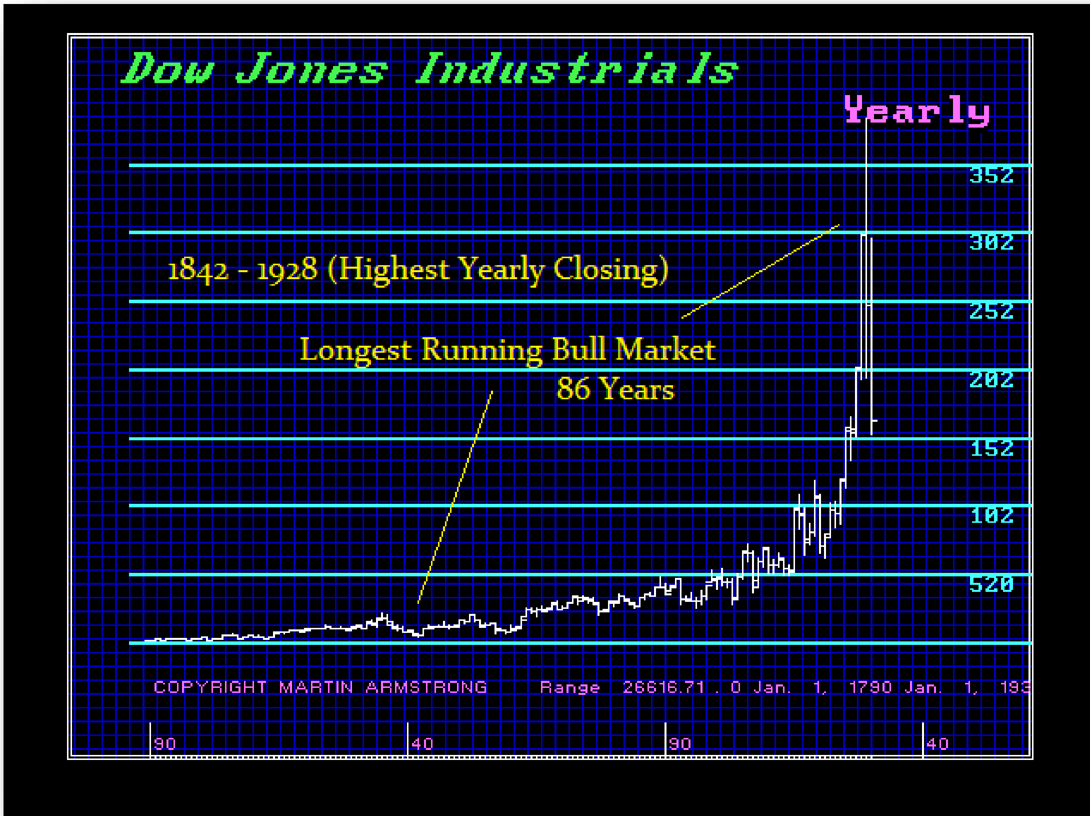
Despite what everyone may say, currency is our mental state by which we judge value. Everyone will look at the market in terms of their home currency that guides that ultimate decision to buy or sell.



Let us look at the 1987 Crash. I have stated many times that this was caused by the G5 who created the **Plaza Accord** to try to manipulate the dollar lower by 40%. When the dollar started to fall sharply, they then called for the **Louvre Accord** proclaiming the dollar had falle4n far enough. The dollar kept falling and the confidence in central banks collapsed. With the collapse in confidence, the US share market crashed all based upon the value of the dollar falling further. The net capital flows from Japan complete went nuts.



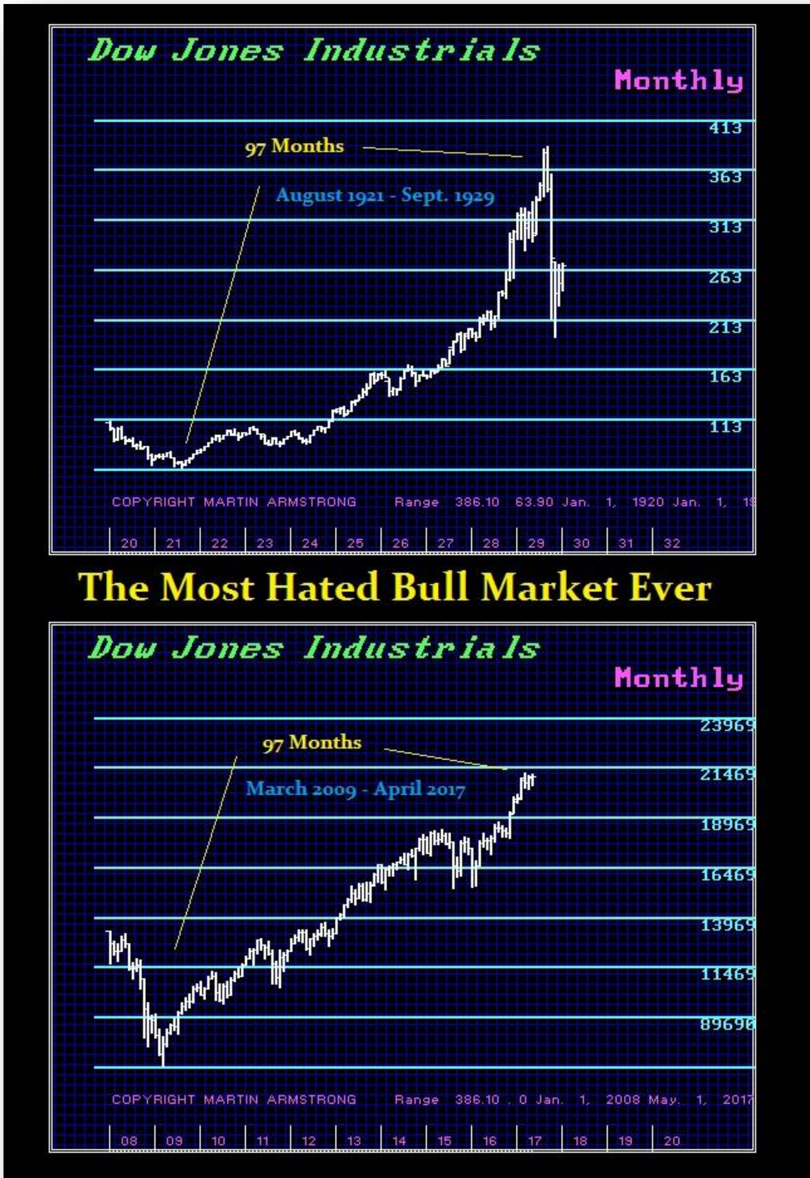
Or are we simply looking at a massive **Plateau Move**? That depends upon the duration from a timing viewpoint. So what does **TIME** have to contribute to this investigation?



What About Duration - TIME?

Of course, we have had the bulk of analysts calling for the mother of all crashes ever since the 2009 low. They have touted that this is a Bubble and that stocks are overvalued. What is actually the longest running bull market in history? That is actually **86 years**. How do I define a bull market when there are corrections within that period? Simple. The trend remains bullish and intact provided each new low does not penetrate the previous.

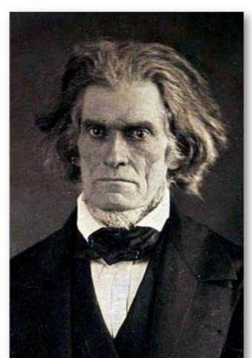
Using this definition, the major low took place during the **Sovereign Debt Crisis** in 1842. From that period, the market kept pressing higher and the highest closing was achieved in 1928, while 1929 exceed that high intraday but closed lower. This brings us to **86 years** from the 1932 low which just so happens to be 2018. This introduces a serious question. Is 2018 the end of a cycle or the start of a **Cycle Inversion**?



The famous Roaring '20s Bull Market lasted 97 months. We reached that during in April 2017. As mentioned before, the duration of the Japanese Bubble was 86 months. This was certainly 10 x 8.6 and that seems to be a very ominous number.

There is little doubt that the fact 2018 is 86 years from 1932 gives us concern that we could be dealing with a very major turning point that is of a major convergence.

The other most interesting aspect of the previous 86-year bull market was that it began from the 1842 low set in motion by the Sovereign Debt Crisis where then States were going bust.



Andrew Jackson
(1767-1845)
(President 1829-1937)

Andrew Jackson ushered in the **Broken Bank Note Era** with massive bank defaults by destroying the central bank. Once he did that, every bank started to print their own money. It became on giant fraud that ended in economic disaster. The lack of a central bank was far worse.

Jackson was against the Bank of the United States because they had lent money to his opposition during the election. All of these banks nobody could find many banks that issued money and it all circulated nationally. The consumer was clueless as to which banks were real and other outright frauds. Those that just look at Jackson taking down a central bank and cheering, they fail to look deeply at the Broken Bank Note Era, which led to the Panic of 1837 that then set in motion the Sovereign State Debt Defaults of 1839–1843.

In 1841 and 1842, eight states and the Territory of Florida all defaulted on their sovereign debts. Traditional histories of the default crisis have stressed the causal role of the depression that began with the **Panic of 1837**, unexpected revenue shortfalls from canal and bank investments as a result of the depression, and an unwillingness of states to raise tax rates. However, these stylized facts do not fit the experience of states at all very well. The majority of state debts in default in 1842 were contracted after the **Panic of 1837**; and most states did not expect canal investments to return substantial revenues by 1841 and did not experience unexpected shortfalls in those revenues.

Finally, most states were willing to raise tax rates substantially and did. The relationship between land sales and land values explains much of the timing of state borrowing and the default experience of western and southern states. Pennsylvania and Maryland defaulted because they postponed the imposition of a state property until it was too late. The United States was the emerging market for Europe and these defaults ruined its credit for decades to come. The Bank of England still has some State debts that were never made good. The Panic of 1837, which had been caused by an overexpansion of banks, caused farmers, planters and merchants to lose their enterprises. This led to an economic contraction that further reduced bank deposits causing bank failures as the depression then settled into the states from which it sprang. States issued bonds to try to bail out the banks and many states ended in default.

Sovereign Debt Default 1833
State of Mississippi $1,000 Bond

During the period, U.S. states borrowed more than $200 million by selling long-term bonds in domestic and international financial markets to finance transportation and banking projects. They went nuts borrowing and spending money and Andrew Jackson's bank war merely gave them credibility they did not deserve. The total borrowing by the states approached a level nearly twice as high as the debt of the federal government at its peak during the period 1790–1840. The federal debt was largely the costs for the American Revolution and the War of 1812. These two wars were less than half what the states had borrowed during their spending binge and fiscal mismanagement.

In 1841, state debts outstanding totaled $198 million. Then the improvement era came to a screeching halt. In 1841 and 1842, eight states and the territory of Florida defaulted on their debts. Three other states narrowly avoided default. Five of the nine defaulting states repudiated all or part of their debts entirely – Arkansas, Florida, Louisiana, Michigan, and Mississippi. The credit of the U.S. federal government, which never defaulted after the debt restructuring of 1790,

1842 Bond State of Louisiana

was tarnished for decades along with the states that did not default. Pictured here is a State of Louisiana bond issued in 1842 and is hand signed by the State's Governor, Andre Bienvenu Roman and its Treasurer, F. Gardner. This historical document states it was issued to "…revive the Charters of the several banks located in the City of New Orleans…" Louisiana experienced years of economic growth as the number of banks doubled and capital increased thanks to Jackson's bank war.

The state banking crisis that was instigated by the **Panic of 1837** was relieved only by new banking laws. In the aftermath, instead of asking why some states borrowed so much, politicians at the time focused on the debt crisis itself and asked how states could have gotten into such an embarrassing mess.


Herbert Hoover
(1874 - 1964)
(President 1929 - 1933)

> During this new stage of the depression, the refugee gold and the foreign government reserve deposits were constantly driven by fear hither and yon over the world. We were to see currencies demoralized and governments embarrassed as fear drove the gold from one country to another. In fact, there was a mass of gold and short-term credit which behaved like a loose cannon on the deck of the world in a tempest-tossed era.

THE MEMOIRS OF Herbert Hoover - The Great Depression 1929-1941, id/p 67

ArmstrongEconomics.COM

What is most interesting is that the longest Bull Market lasting 86 years began with the **Sovereign Debt Crisis** hitting the states which produced the low in 1842. It then ended with the **Sovereign Debt Crisis** that saw most of Europe, Asia and South American default of their national debts.

Battle of Vienna, September 12th, 1683

If we look to 86 years before 1842, we come to 1756. This was actually the final culmination of what we can only call the **Age of European Economic Crisis**, which was a very prolonged economic depression. The Turk invasion of Europe and the quest to take the seat of the Holy Roman Empire in Vienna, set in motion an economic panic. This would set off an economic depression, perhaps the longest in modern history, with a duration of 72 years. The older economic centers of growth have been taxed from the cities of Northern Italy to the trading and manufacturing towns of Flanders. Europe had fallen into a deep economic depression from which the recovery that changed the trend was the birth of the Industrial Revolution which began with the coming of the railway.

Elsewhere, sectarian violence, civil war and repeated incursions by Turkish troops ravaged vast regions of central and Eastern Europe into the first decade of the 18th century. From the 1660s to 1713 commercial and real warfare between France, England and the Low Countries undermined Europe's most prosperous economies. The last Medici ruler died without a male heir in 1737, ending the family dynasty after almost three centuries. When the last Medici grand duke, Gian Gastone, died without a male heir in 1737, the family dynasty died with him.

Sovereign Defaults had plagued the period. Spain had become a serial defaulter beginning in 1557 followed by 1570, 1575, 1596, 1607, and 1647 ending in a 3rd world status. The **Sovereign Defaults** transferred the financial burden of these conflicts and ruined financial banking systems of Europe. The Spanish ruined the Northern Italian bankers sending the financial capital to Germany. It was the German merchant-banking field that emerged in the aftermath of the fall of Florence as the financial capital of Europe.

The German merchant-banking family of the Fuggers was founded in Augsburg in 1367. Bankruptcy was quite common before 1756 because people did not understand the cyclical nature of political economy. Eventually, the financial capital migrated from Germany to Amsterdam, the birth place of central banking and insurance.

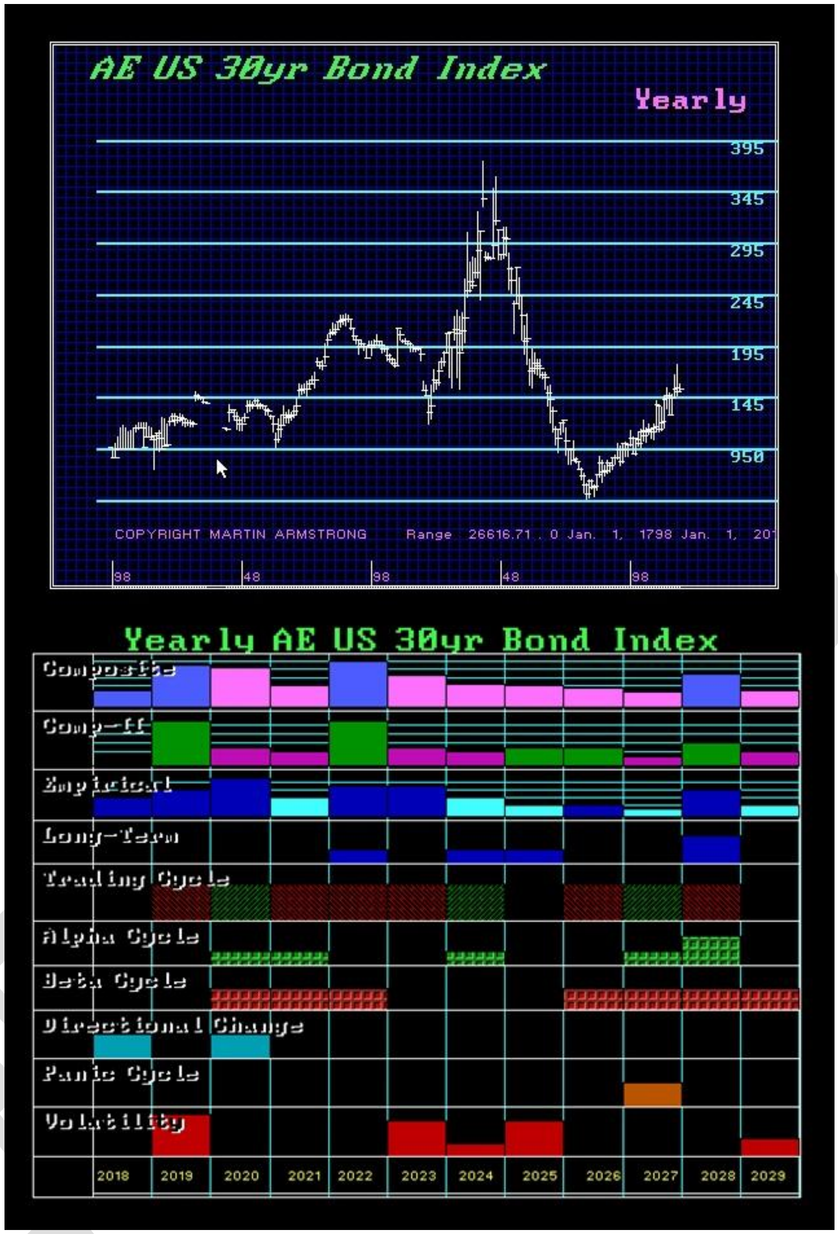
The supply of money also declined during the **Age of European Economic Crisis** and prices fell. George II of England had demonetized all previous coinage in 1733 and after 1754, no copper coins were struck at all. Eventually, George III reintroduced bronze coinage in 1770 after 16 years of a monetary crisis.

Even the population grew hardly at all and in some places actually declined. The paradox is that from this age of social and economic turmoil emerged an Industrial Revolution and the onset of sustained economic growth.

The burning question then remains, is 2018 the start of a massive new economic depression or the beginning of another **Sovereign Debt Crisis**? What of the future of equities?

Under a normal cyclical model outcome, 2018 would be the end of the cycle and we would typically expect another economic collapse. Yet the monetary system is far different today than it was in 1932, 1842, or 1756 for that matter. This time around the monetary system is all based upon credit. It is not "fiat" for that by definition means the value of money is fixed by government. Here, the value of money floats. The real concern is the fact that the bulk of the money is DEBT and DEBT always defaults when issued by government.

Therefore, the more likely outcome is the collapse of the debt structure. This time we have the State and Municipal governments going broke first as we saw back in the Panic of 1837 into 1842. The US government had actually paid off its debt so there was no federal level of default.



We can see in the chart that prior to the 1840 State Sovereign Debt Crisis, the Federal government had paid off its debt. Clearly, that is not the case today. Europe never consolidated the debts of member states so the risk of defaults of one member impacts the whole. 2018 is a **Directional Change** in the bond market and volatility rises in 2019 into 2020.

The more likely course of the future will be a Sovereign Debt Crisis which impacts both the Federal and State/Municipal level. This suggests that there would be a higher probability of a Cycle Inversion. This does imply a stronger move toward cash rather than bonds and private sector assets.

Where's the support? Since 2010, I laid out the primary resistance targets were 18500, 23700, and 40,000. I have also made it clear that often what was resistance becomes support once exceeded. On November 11th, 2017, I wrote on the Private Blog:

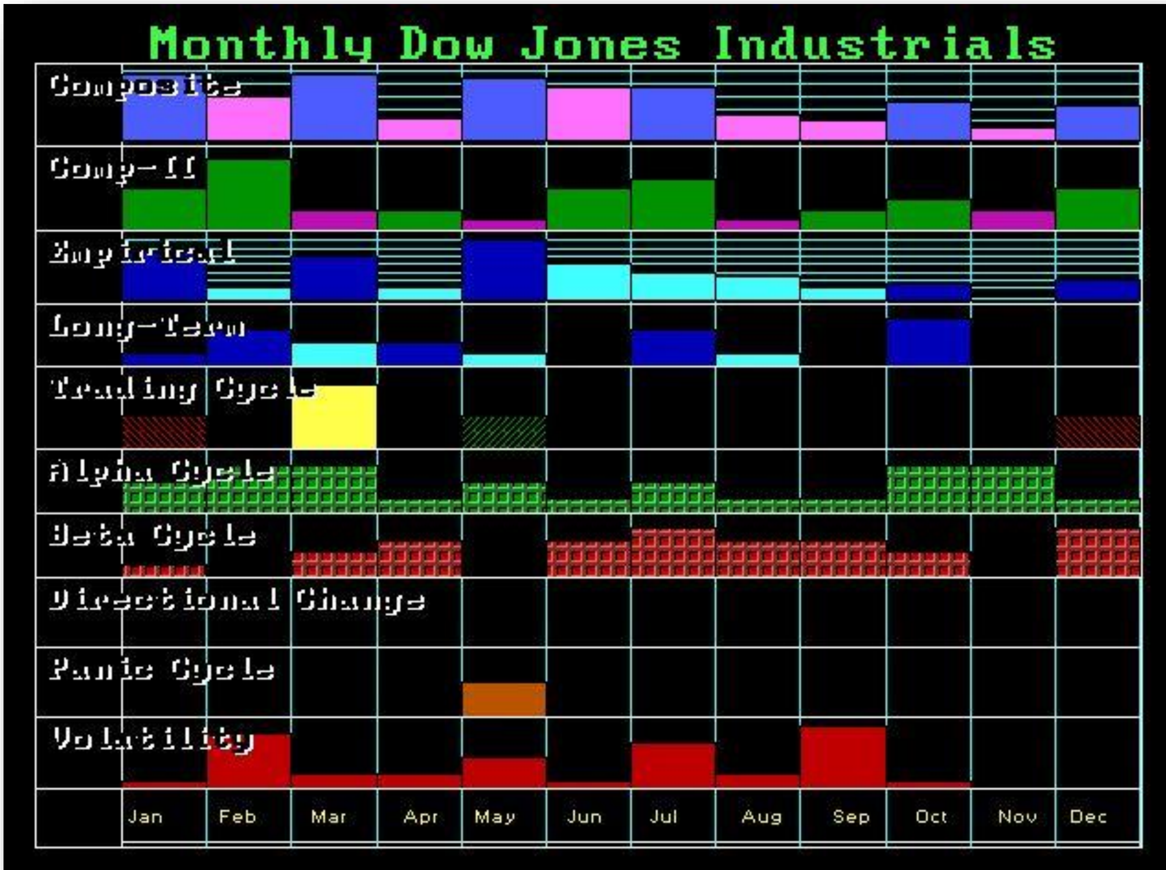
> *"EXTREME CAUTION must be taken NOW. Our first target for resistance was 18500. That was followed by 23700 and then 40000. We have reached 23602.12 so we have reached out target resistance area. We should have a high here in November and there is a reasonable chance for a correction into the Jan/Feb time period.*
>
> *Everything has been riding on the Trump Tax Reform. The Republicans are worried about their 2018 election so this is introducing a delay. They will ALWAYS put their personal career ahead of the nation. This is why we really have to eliminate career politicians – one time in and out!!!!!!"*

I further warned that if the Dow should move up to test the 25,000–28000 level once we get through the 23,000 level. The real test of the sustainability of this market in light of the prospect of the collapse of even some central banks outside of the USA will come in 2018–2020.

What appears to be shaping up is a profound **Cycle Inversion** of a grand level. Clearly, 43 years up from the 1974 low was 2017, the half-cycle interval. That was in turn 42 years from the 1932 low. Therefore, while 2018 will be 86 years from the 1932 low, a **Cycle Inversion** implies a continued rally for at least 3.14 years taking us into the 2021/2022 target as a minimum.

Therefore, to extend this rally beyond 2018, we will require a profound **Cycle Inversion**. If we hold the 23700 level in general on a monthly closing basis and the 2017 intraday low of 19677.94, this will indicate that a **Cycle Inversion** appears underway. A 2018 year-end closing **ABOVE** that of 2017 will also be a positive sign for a continued rally by a **Cycle Inversion**.

2018 Timing Road Map



The most important targets during the first half of 2018 January, March and May. February could produce the lowest closing and we could see March produce the intraday low. However, we could also see February produce a Knee-Jerk Reaction given it held the Third Weekly Bearish Reversal at 23,250.

May appears to be an important turning point but it is also showing up in the bond market. A March low implies a May high, but a continued **Cycle Inversion** could also warn of a Slingshot is coming to the upside should March and May produce highs.

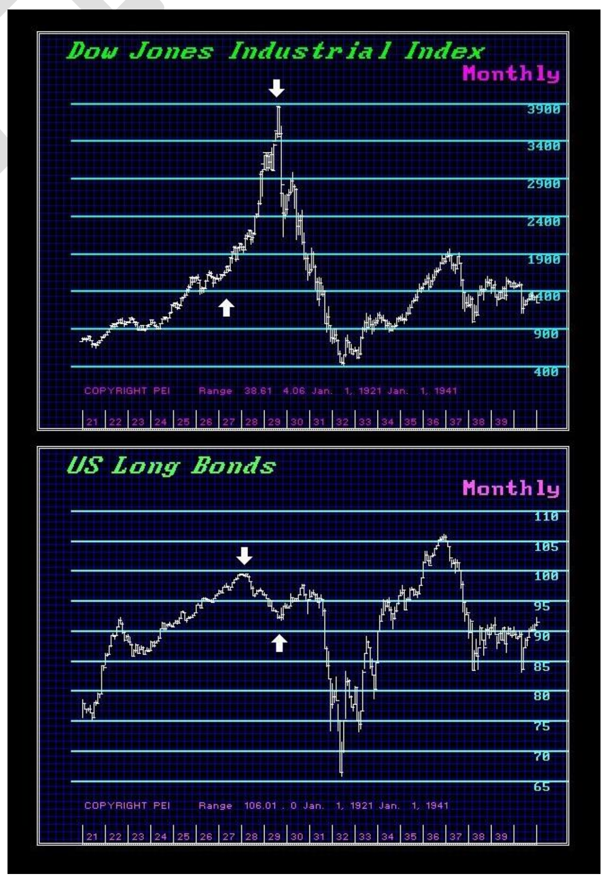
So, for now, the Reversals will predict the outcome. We need to play by the numbers.

Conclusion

The explanation behind the stock market meltdown has been the potential rise in interest rates. Of course, that is just the excuse, for we finally began to see analysts starting to throw in the towel and turn bullish thanks to Trump's Tax Reform. Even George Soros, who was a perpetual bear, threw in the towel at the end of 2017. The market has a way about it of always throwing a curve-ball just when it is the perfect time. The future is always a maze that we stand before and the direction of the market is inevitably moves against the majority for that is the very fuel which makes markets move.

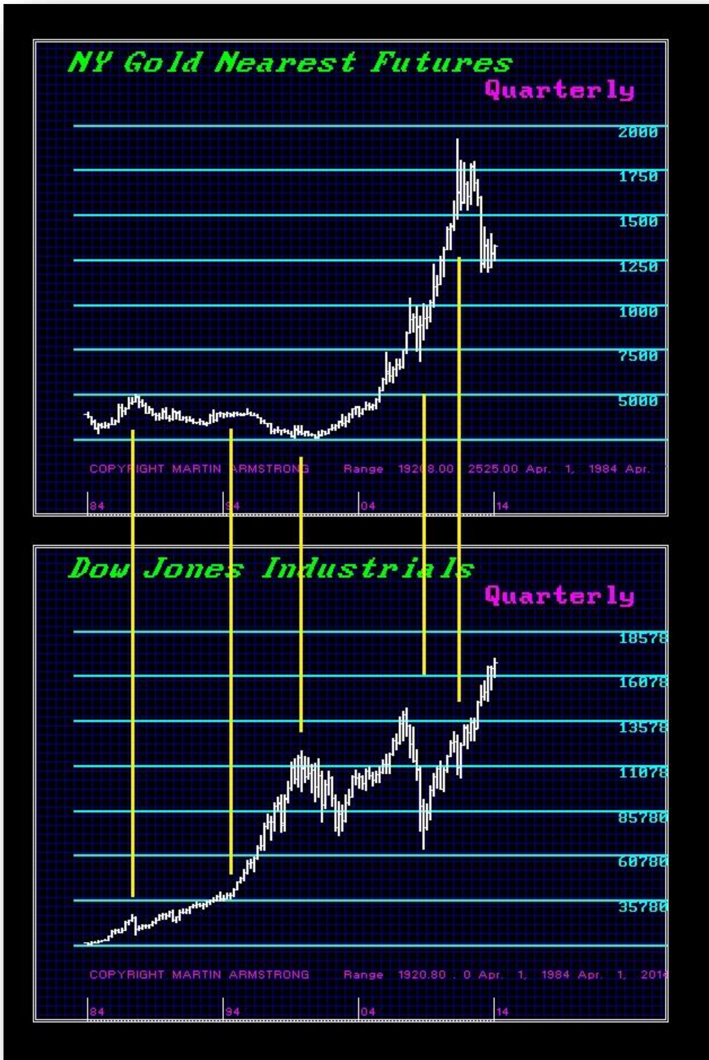
The question that we face is how are we moving through this transition regarding the shift from **Public** to **Private Confidence**? We can see it in many areas from civil unrest to the election of Donald Trump. Things are changing at the core. Yet within the sphere of financial markets, there must also be this transition period where confidence begins to shift and in the process the relationships of everything to everything else must also undergo stress and change.

With Dow declining, we are failing to see a rally in cryptocurrency, bonds, or gold. The long-touted flight to quality that was equity to bonds is not unfolding as most have expected. Then again, gold was touted as the safe-haven, and even that has failed to rally. Then there was the dollar that the majority expected to crash. Here too, we saw the Euro rally against the dollar and peaked the week of January 29th, one week after the Dow.



So what is going on? Where is everyone running to – just cash? Traditionally since the Great Depression, Equities typically decline and people run to the government bonds, which they call the Flight to Quality. Yet interest rates are so low and government debts keep rising. The traditional flight to quality if not surfacing this time around.

Others have touted that gold would soar when the stock market crashes. That too has not unfolded. If we plot the Dow against Gold we can see that there is no consistent relationship. There have been times when they trade against each other and then there are periods when they trade together. Clearly, there is a interesting invisible hand from another factor that influences the trend.



Then there has been the perpetual dollar-haters who have forecast that the dollar will collapse when the stock market crashes. This too has defied logic as the Euro has declined after making its high the week of January 29th, one week after the Dow peaked on January 22nd.

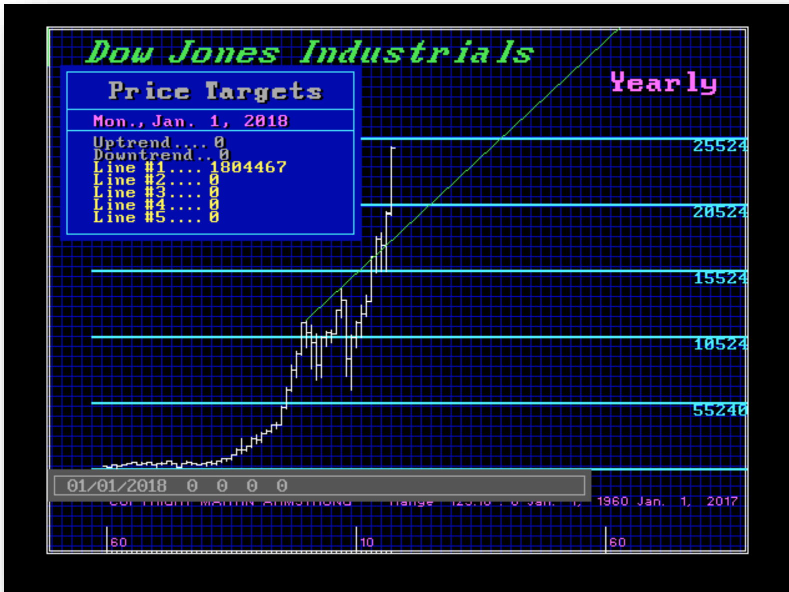
What nobody seems to be talking about is what happens when the crisis is confined to government? Is that when gold rises? But then what about stocks? When **CONFIDENCE** collapses in government, the Flight to Quality becomes the opposite of tradition sell equities and buy bonds. Even when gold was rising moving up into 1980, bonds were declining.

So, what is going on this time? We are in the midst of the **TRANSITION** from the confidence in government to the private sector? Id such a transition altering everything and nobody seems to understand what is unfolding. This is why we are getting mixed signals and strange relationships?

Now we have gold declining and the Dow declining and the dollar rising as people assume that higher rates may now help the dollar, but nothings else. Nevertheless, all the TV talking heads have so misinformed the public about relationships of all markets that we get the correction based upon false assumptions and the reversal of fortune will come at the cost of major confusion. Here we can see that interest rates rose as did gold. All they remember is gold peaked and interest rates continued to rise into 1981 so they then attribute the decline to the rising rates ignoring the trend before.

What we are facing is this readjustment is confusion at first, then the outcome results in a slingshot up and a Vertical Market move which appears to be headed now into 2032.

In order for a low to unfold in 2020 as a result of a rising dollar that many would see as reducing corporate profits, then if 2018 were to close below 19677.94. the 2017 low, that would most definitely indicate a 2020 low. We are looking at also 22276 and a 2018 close beneath that would also indicate that the market is weak going into 2019.



When we look at the Dow technically, we can see that a retest of the top of the former channel would certainly not be inappropriate. That implies technical support at 18044 during 2018, which will rise to 18394 in 2019, and then 18744 by 2020. Yearly Bearish Reversals do not come into play until we reach the 15340 level.

The only time we elected a Yearly Bearish Reversals was from the 2007 High. That ensured a two-year collapse into 2009. We did not elect any Yearly Bearish Reversals in the Dow from 2000 or 1987. We elected one Quarterly Bearish Reversal from 2000 and all four from the 2007 high. We did elect **TWO** Yearly Bearish Reversals from the 1929 high.

Therefore, a monthly closing below 22415 will confirm we have a correction at hand that may indeed lead to a dramatic slingshot. The third Monthly Bearish Reversal lies at 19137. A reasonable correct implies that we should elect two Monthly Bearish, but hold the third. The first line of defense will be the Third Weekly Bearish at **23,250**. As long as that holds, then we may see a **Cycle Inversion** unfold driven by the worsening **Sovereign Debt Crisis** which now starts to appear in 2018, which is the crossroads given it is 86 years from the 1932 low. True, it is possible to consolidate into 2020 and then rally. Is that possible with a Bubble in the Bond Market?