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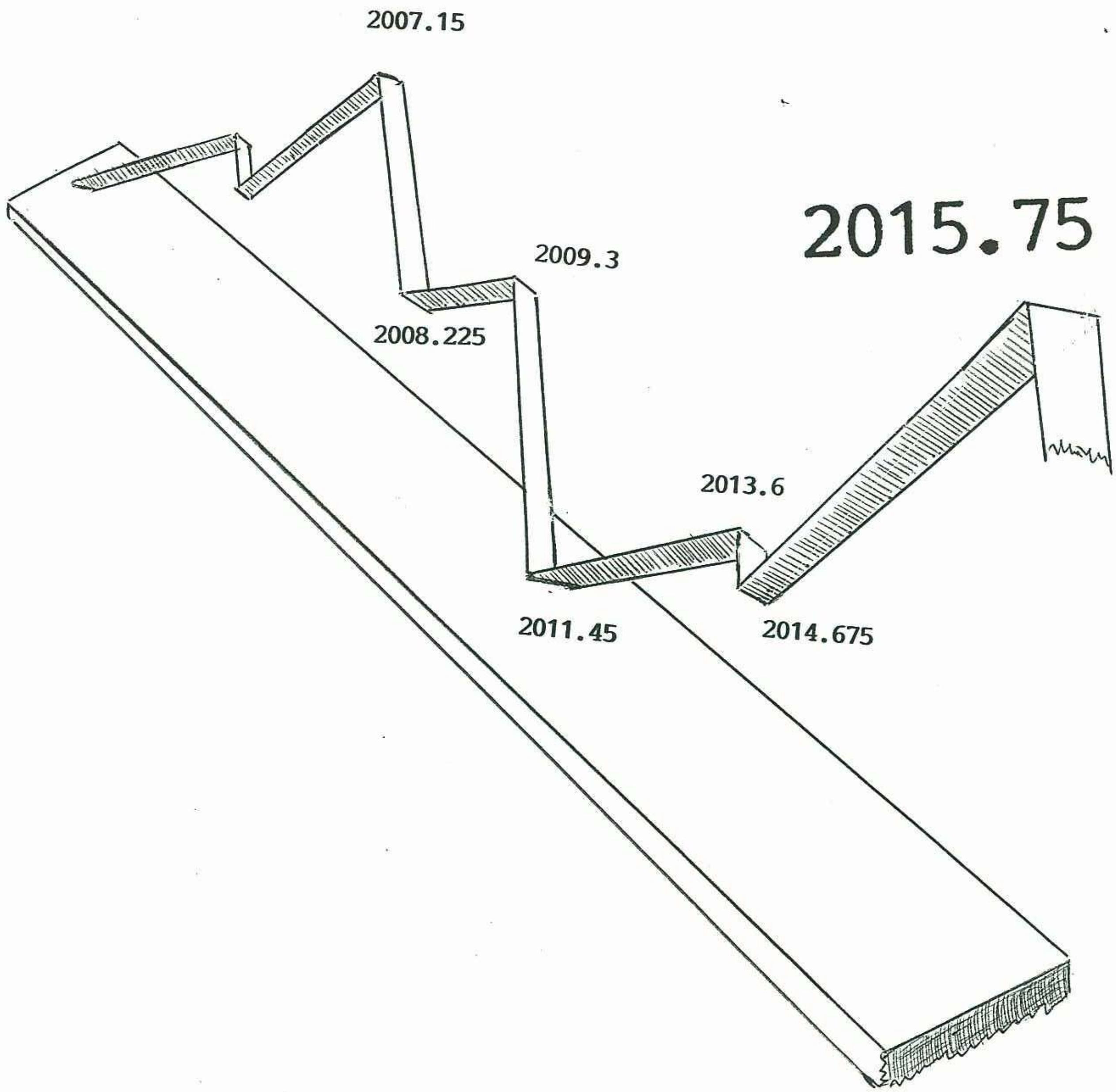
Will the Dow Reach 30,000 by 2015?



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 August 14th, 2009

Comments Welcome: ArmstrongEconomics@GMail.COM (Internationally)

A C K N O W L E D G E M E N T S

I would like to thank the many people who have been writing from around the world. It is encouraging to know that there are so many people who are interested in uncovering the truth. I have also special thanks for so many providing valuable insight into trends around the world from China, Soviet Republics, South Africa, Brazil, Australian, and India. I believe we can survive the folly of governments even if they refuse to listen. The key is understanding the nature of events, and that allows us to correctly make the decision to be on the opposite side.

I would like to also thank all my old friend and former clients for their support and to know that they have continued to gather information that serves us all in times of crisis.

We are standing on the precipice of a new era in global-social-economics. How we enter this new age is of critical importance. Government is incapable to doing anything for any reform of its own abuse of power is not up for negotiation. We must weather the storm, and to do so we need to understand its nature. Just as the 1930s Great Depression set in motion profound changes that were even manifest in geopolitical confrontations, we have now reached such a crossroads. A debt crisis has its tentacles deeply embedded into every sector right into government. This is the distinction from a mere stock market crash that never alters the economy long-term. We are seriously still over-leveraged and some banks are still trying to be hedge funds and have to speculate to make a profit. That is a key warning sign that the worse is yet to come.

Comments, Suggestions & Questions

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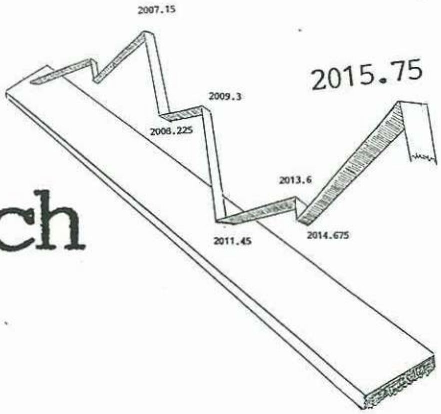
 At a future date, a new edition of the 1986 The Greatest Bull Market In History will be released and a new book will soon be published on the model itself - The Geometry of Time. It is vital that we do not forget this is a world economy and the arrogance that any nation can dictate to the world is just insanity. Every nation effects all others no different than if one nation were to pour all its toxic waste into the ocean. Everything is interlinked and solutions are never isolated events.



Will the Dow Reach 30,000 by 2015?

Our cyclical journey through time has given us an explanation that the **Economic Confidence Model** is a global model and what peaks precisely with it is what one could call the "hot money." In realitity, this is the concentration of capital into a particular nation, sector, and even down into the individual level. The Marxists are targeting the "rich" and know not what they are doing. It is like discovering there is a noise in your chest (the beat of your heart) and they think it should be silent. A particular sector becomes attractive to capital. It acts like a magnet drawing it in from around the world. As this sector becomes the focus of the capital concentration we end up with the result of booms and busts as well as progress and innovation. This is the very essence of economic life. Yet at the same time, there is this constant oscillation between **Public** and **Private Confidence.** This is described in times of economic crisis as the **"flight to quality"** but we must respect, it is not a one-way street. When capital becomes frightened after a speculative bubble in the private sector, it rushes to the public sector bonds. But when the source of that decline in **confidence** lies within the **public sector,** then the capital flow is reversed and the **"flight to quality"** is the tangible assets in the private world. What we are looking at is a collapse in **Public Confidence** that is going to materialize into a new **"bull market"** that will see the Dow Jones Industrials rise to perhaps even the 30,000 level going into October 1st, 2015.

Now let us take this to the next level. As I have previously explained, each and every market has its own distinct and very unique cyclical frequency. So what does not peak with the Economic Confidence Model will follow the beat of its own drums.

Nevertheless, each individual market will also display an underlying current within. Just like the water at the beach where the energy flowing through the water creating the cyclical wave motion may be moving east to west, there is still the current within the water that may be moving north to south. These two actions are in fact moving at 90° angles to each other. The one rule to always remember, what holds true in the physical world must hold true in the world of human-interaction that is our social-political-economy. The laws of the science of physics applies to all things including how we even interact with each other.

This is also the **Grand Unified Theory** of all cyclical movement. It is the very essence of how energy itself is transported and transformed. As it moves through society creating booms and busts, all we can do is understand how, why, and when such movements will take place.

I have explained the volatility cycle of 72 years. The same numbers will reappear time and time again at all different levels in our observation. If we take 8.6 months and divide that by 12 months to obtain the percentage this represents of one year, we end up again with 72% (rounded).

What I am about to illustrate is that the proof of this 8.615 cyclical frequency that when measured in years equals Pi (3.14) times 1,000 in days, is that it appears in everything around us even when we may not be looking for it. This proves its fractal nature, and thus it is the key to all cycles.

Economic Confidence Model

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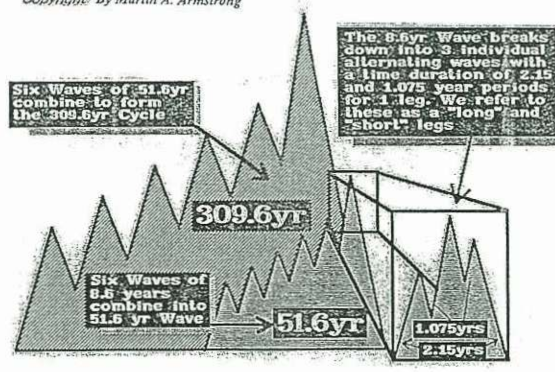


Further proof that there is a hidden world of time is also demonstrated by the fact that we saw a 17.2 month decline in interest rates from the June 2007 high. What we have is the same frequency showing up in different mediums that possess their own unique frequencies in normal times.

The emergence of the 8.6 frequency in a wide variety of mediums is indicative of major events. Like the ocean, there are just periods where the wind is calm and the waves in the water almost do not exist. This is when the current within the water becomes the dominate mover and shaker.

There is a cycle to everything right down to your moods. When we look out at the world, what we see is a complex interaction of forces that are clashing like titons of old. Perhaps the Greeks ascribed to gods these forces they observed and attributed them to actions of beings.

We are dealing with the complexity of life itself. Darwin observed from his own empirical exploration, that emerged into his theory of evolution. Today, we have discovered what he could not see - DNA. We can now take that DNA code and track the similarities and evolution. Those who only see evil in such things as being contrary to religion and the Bible, overlook a simple fact. This is what can be proven. It does not mean that God did not decide to take a monkey and transform him into a man. The two possibilities cannot be mutually exclusive insofar as science and religion.

If DNA is the blueprint on how to make copies of a species to perpetuate life itself in all forms, then perhaps cycles are the equivalent DNA in how all life interacts. Moving from one level in time to the next is mapping a fractal world of complexity.

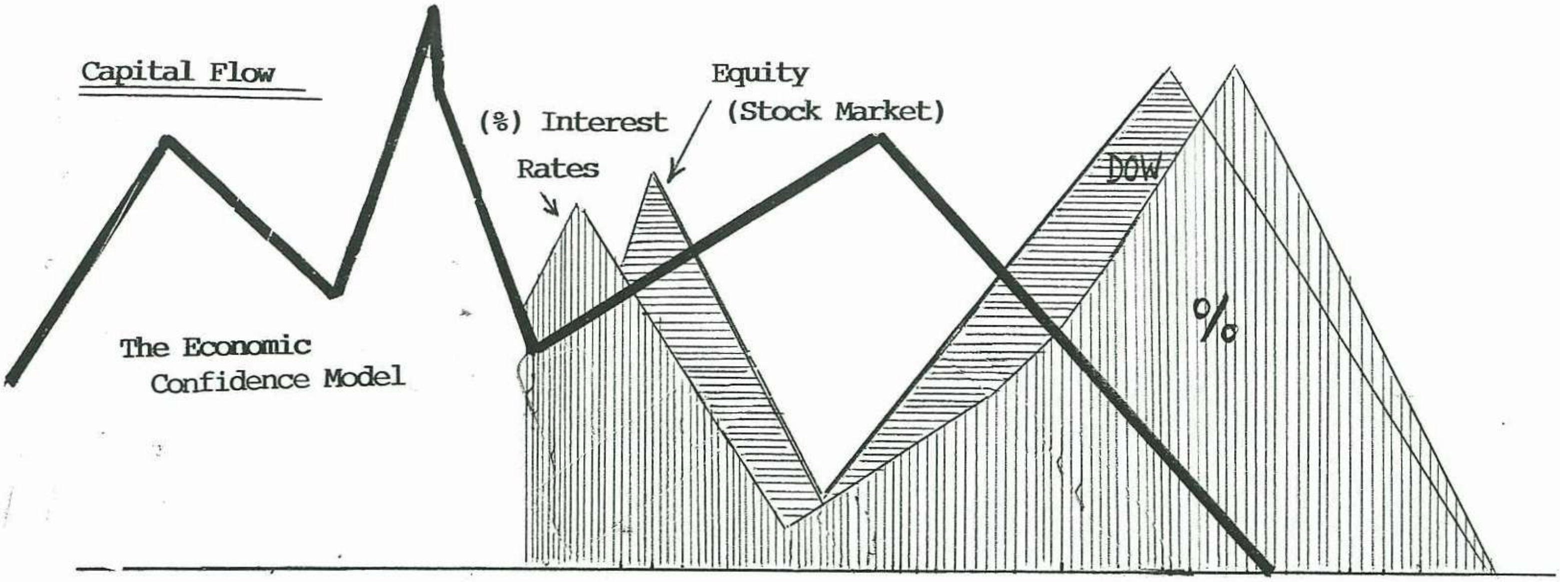
What I hope to reveal is a dynamic and new world of interaction. If we can climb this exchelon of complexity, we can reach a new understanding and progress beyond the world of bias and prejudice not to mention the many superstitions.

If we can understand the world of complex interaction, we will end the witch-hunts and stop the quest to blame someone for what our own government does every time - destory our future by self-interest, corruption, and fear of a loss of power.

If we existed when the dinosaurs ran around, no doubt we would be blaming that on someone also. We try to pretend we can even identify a single source and then tell the world we have criminally thrown them in jail and the economy is back to normal. Nonsense!

We are either going to graduate to the next level of existence or we will stay in our primitive primordial ways of blaming all events on man as if we have the power to in fact move the world like the Greeks believed in their gods were mischievous creatures who just enjoyed messing with the plans of men. Today, we prosecute everyone and conjure up wild theories to make it sound good that are no more truthful than anyone else in this primitive primordial historical state. Just as the Commodity Futures Trading Commission accused me of manipulating the world economy, this illustrates my point. We might as well still be sacrificing virgins and praying to Neptune to make the waves smaller.

We cannot rise to the next level until we abandon these stupid presumptions. We can no more control the world economy even as a nation, than we can the weather. The system is so complex, we cannot see if we refuse to open our eyes. There is a dynamic world waiting for us if we stop the arrogance that we are as almighty as the Greek gods.



It is clear that the economy peaked in February 2007 with the Economic Confidence Model for that is where the housing market indexes reached their zenith. The stock market crashed briefly precisely to the day of the model, but then rallied later in the year showing that the concentration of the capital was squarely within the debt markets and not stocks.

Interest rates rose into June showing the hidden core was a debt problem. This was the first result of the February high in the economy with the model. As debt problems began to emerge, this signalled that there was trouble lying beneath the surface. Many needed cash and this started to force rates higher into June given a clear warning of what was to come.

The Dow Jones Industrials rallied into October 11th, 2007 before reaching its high. Keep in mind, that stocks have in normal conditions been the competing investment for fixed income. Therefore, cash will at first flee from debt to stocks and this then had created the next result - the Dow peak.

Unfortunately, the majority do not even understand that capital flows, no less how. The flow of capital can be tracked throughout time and just as it concentrates into one sector and nation, we must understand what happens when that concentration begins to reverse. The rise in stocks after the economy peaked is a normal result of how the capital flows like water through our social politicial-economy. The first reaction is to flee fixed income and move to equity. This is the typical flow of capital in a debt crisis. It is reversed in a speculative bubble in stocks where capital flees to the bonds.

Illustrated above is an overlay of the Economic Confidence Model with behind it we find the two individual markets of equity and interest rates. Not everything peaks at the same time. For every action in the first global model, there becomes an equal and opposite reaction that ripples down the line.

The peak in the housing market, set in motion a contraction in capital that caused the rally in interest rates into June 2007, that was then followed by the initial rush from fixed income to equity creating the new Dow highs in October 2007.

The low in interest rates thus took place in 17.2 months (2 x 8.6 months) from the June high of 2007. As the flight to so called quality ended, the next to bottom in March was the equity market 17.2 months from its high in 2007 (2 x 8.6 months).

These are the natural consequences of how capital will flow into a sector and then depart. What we are looking at on the very broader term, is that the Dow will rise and and reach a new record high as we see the reverse continue to unfold. In other words, the flight to quality now will be the flight from government debt back to private sector equity rather than debt. This should then materialize a major high in the Dow that will therefore be followed by a rise in interest rates setting the stage thereafter for the next new dawn of a cyclical trend.

These events take place in slow-motion when we look at them from the long-term view on an annual basis - not daily noise. The Free Markets are never wrong for they show you what will unfold in slow-motion.

Capital Flow Analysis

(1) Capital flows among nations driving currency values higher and lower just as mankind migrated spreading out around the whole globe. Capital responds in the same way looking for the greener grass

(2) Capital flows even within a nation between sectors creating the boom bust cycle.

(3) Capital flows to the movers & shakers of innovation on an individual basis and their excess capital is put back into the global pond and then becomes available for someone else to create a new wave of innovation

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Captial flow analysis is something I have developed from observation and working with the movers & shakers around the world. In the 1980s, everyone was in Geneva. That was the center for dealing with the vast hoards of cash coming in from OPEC. However, as oil declined as did gold going into 1985, the next 4.3 years was a shift in capital flows that was signalled by the failure of the Japanese yen to correlate in 1985. The yen, unlike other currencies, bottomed in 1982 - not 1985. The huge popular trade back then was the Deutsche mark/Japanese yen spread. Suddenly, that spread began to reverse and the mark was now headed to new record lows nearly 4 to the dollar going into 1985. The yen, held its ground.

One of the primary lessons of my many years of observing, has been that **absolutely nothing takes place without reason and a very clear purpose.** Just as Einstein had difficulty believing that anything could be purely random and that God was playing dice with the universe, the same is true in **everything** I have ever observed.

Just because we may see something that is strange and makes no sense at that brief moment in time, it does not mean that we should ignore it. The **Free Markets are just never wrong**! Politicians will disagree as will Marxists, because they desire the true power to manipulate the economy. Nevertheless, it is bullshit to believe in such an arrogant position. We can no more control events than prevent death perpetually.

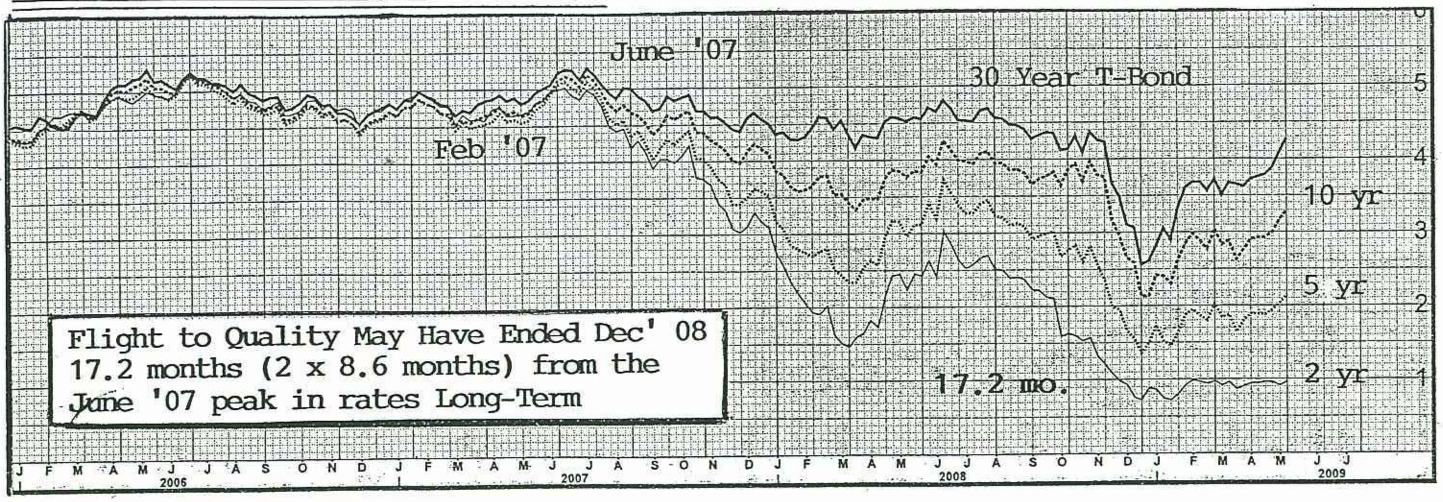
The fact that the yen bottomed in the 1982 cycle event, set the stage for a clear 7 year bull market going into the bubble top for 1989. All other currencies bottomed in 1985, rose into 1987, created a crash precisely to the day of the model October 19th, 1987, but this was all capital flows pouring out of the United States and even Europe headed on a journey to flow to the new hotest market in the world - Japan!

Just like the talking heads on TV who try to provide the definitive explanation each day how the market's movement in a single and distinct fundamental explanation, reality is never what they believe, if they believe what they are even saying. Government does the very same thing, and it seems to me they delight in their own applause for being so smart.

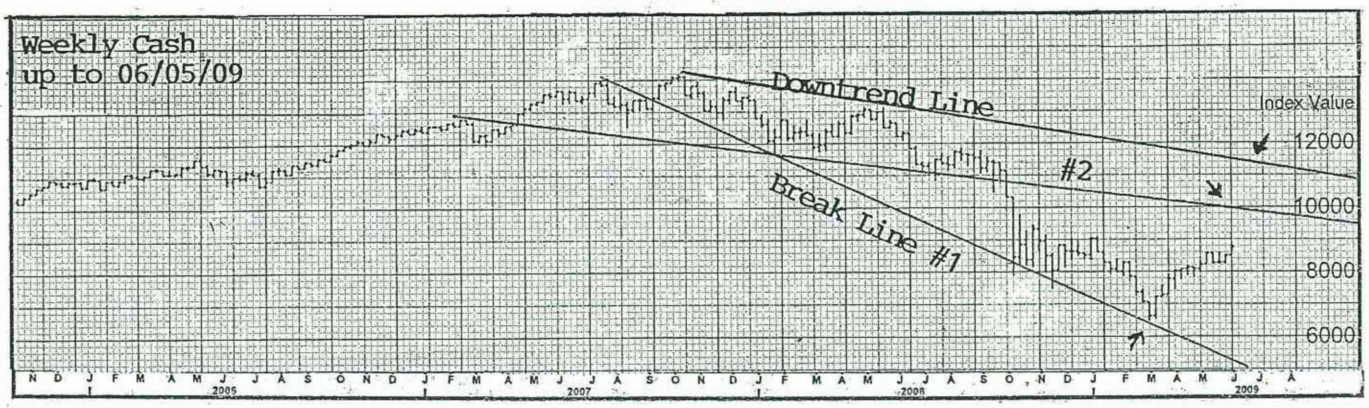
This is a far too complex system of interactions on a global scale to reduce the cause to a 60 second or less sound-bite. We are in all honesty preventing our own evolution for we are trapped in this world where the clear majority believe the world is flat. May be it will take a collapse of such devastation to unfold before we wise up and realize we just got it all wrong.

Every subtle move is for a purpose. The fact that the yen did <u>not</u> make new lows in 1985, set the stage for the minimum real bull market that requires 7 years minimum. This is why the 1982 low held and 1985 was a retest with the rally into the bubble top for 1989. The Pattern Analysis projected correctly. The individual cyclical timing models on Japan were also lined up with 1989. And above all, the 1989 December high lined up with the Economic Confidence Model 1989.95. This was now a foreseeable event horizon in Japan.

THE FLIGHT TO QUALITY MAYBE OVER



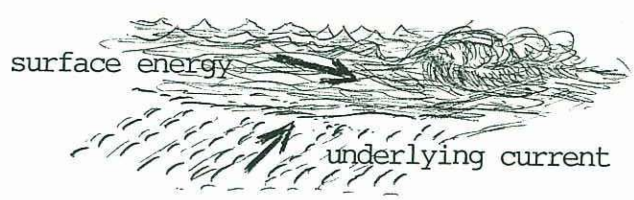
DOW JONES INDUSTRIALS



We can see from the above two charts that the flight to quality and the Dow Jones both reached their lows in 17.2 months - a key timing interval of twice the 8.6 month frequency. The Dow Jones Industrials fell into March 2009. This was following a swift waterfall effect insofar as there was no reaction rally - just a meltdown.

Looking at the Dow Jones Industrials, if we project precisely from the Oct 11th, 2007 high, 17.2 months to the day gives us March 19th, 2009. The precise low on an intraday basis was March 6th at 6,470. The lowest close took place the next week on Monday March 9th. The ideal target of the 19th was 8.6 trading days later.

This demonstrates that aside from the individual cyclical frequencies within the Dow Jones Industrials that are different from the NASDAQ 100 and the S&P 500, still there is that unique signature frequency of 8.6 that moves through everything and at times is at a 90° angle to the core inherent natural frequency within the individual market that we are observing. Like water, this is the hidden current under the surface that is being effected by the wind forcing energy to flow at the surface contrary to the underlying current hidden beneath.



Therefore, cyclical complexity runs very deep indeed. To see it all, we need computers to peal back the layers both in time, and in the actual activity. There is a vast new world that is waiting to be explored, if we understand it even exists. The fact that the Dow reached this March low in 17.2 months is a window into the existence of a world we should not ignore.

I find it curious that when the CIA contacted Princeton Economics, they even admitted that they recognized that I had invented capital flow analysis and wanted me to build a model in Washington. When I declined, the staff believe that was the reason for the assault on the company and me personally. Perhaps, but I am not sure they were the source. They may have been instigated by others, but that source was New York Investment Banks who saw the model as a threat because they could not trade against it, and we were educating their ususal prey.

Nevertheless, the CIA recognized that the fate of nations could be predicted by capital flow analysis. When the model had accurately predicted the change in trend in China and in 1998 I gave a lecture in the City of London that was reported in the London Financial Times that summer that our model predicted the collapse in Russia in about 30 days, which unfolded that Sept materializing in the Long-Term Capital Management collapse and contagion, they then and there realized the importance of this type of model.

At the court hearing of October 3rd, 2000, the SEC and CFTC demanded along with the receiver that the Institute be shut down and when staff showed up with written letters requesting from the Department of Energy to construct a model for them because we had also forecast when oil hit $10 that it would rise to the $100 level going into 2007. The Commodity Futures Trading Commission was instigated by the New York Investment Banks to shut the model down at all costs. They demanded the court close the Institute and ignore other agencies requesting help. They won.

The SEC and CFTC saw Princeton as the threat because they did not understand any model. To them, anything that could do such things is proof of being too influential and thus evidence of manipulating the world economy. They want to keep the public dumb so the New York Investment Bankers can feed on them to earn proprietary trading with absolute immunity for whatever they do. This is the sad state of the corruption in our so called regulatory system. It is part of the cycle and is what is causing the real collapse in Public Confidence. This is the essence of what we face.

I suppose I will be blamed for the fact that the flight to quality came to an end in 17.2 months again. They will most likely also blame me for the demise of the political-economy that we are facing. But they have in fact fulfilled the cycle. Their own corruption is destroying our future. This will become self-evident when the capital flows flee the government bonds and return to equity and gold where the Dow may rally into 2015.75.

What Does The Future Hold

The Free Markets are never wrong, only those who analyze them, including myself. If something is not developing as expected, it can never be the markets, only the failure to consider all the data impacting the market.

Consequently, if we step back and look at the major trends, we can see the eventual outcome. Just as the yen bottomed in 1982, a 7 year rally predicted the peak in 1989. When oil bottomed, an 11 year bull market was projecting into 2007.

The major low for the Dow that was in perfect harmony with the Economic Confidence Model was 1994.25. The low was to the precise day. Bull markets unfold in increments of 7, 11, and 21 intervals. The first timing on this Pattern Projection Analysis was lined up for 2000. This was a bubble top in the Dot.Com and was precisely 7 years from the lowest annual closing in 1993/1994 intraday. The next target 11 years produced nothing. The Dow rallied into 13 years from the 1994 low and that was not on the Pattern Projection Analysis grid. This was the capital flow result from the Economic Confidence Model peak in February 2007 (2007.15). Since this 2007 high does not conform on all levels and all slices of analysis, it cannot be a major high. That means we must look at the final timing element on the Pattern Projection Analysis that brings us to 21 years for the big high from 1994 - 2015.

In other words, the real peak in equity is targeted to the next peak in the Economic Confidence Model 2015.75. For now, we may see a 6 month rally. The main resistance is 11,000 level in the Dow. We need a monthly closing above that level to signal the March 2009 low will hold. Otherwise, we should expect a retest of the lows and still even perhaps new lows going into 31.4 months down from the Oct 2007 high with a rally into the neat target 2015.75 reaching 30,000+.