

Answering Your Questions

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Uncle Sam



Hey buddy!
Can you spare
a trillion?

dead broke

The US Stock Market has ended the worst week so far for the past year as time runs out on Washington to reach agreement on the insane debt ceiling limit. Why do we have such a limit anyway is a question nobody seems competent to answer. The S&P500 fell every day this week and was down 3.9 percent for the week as legislators have been blocked by what is clearly a rising third party. They got the vote finally only by attaching a Balanced Budget Amendment that will go no place. We seem to have forgotten our

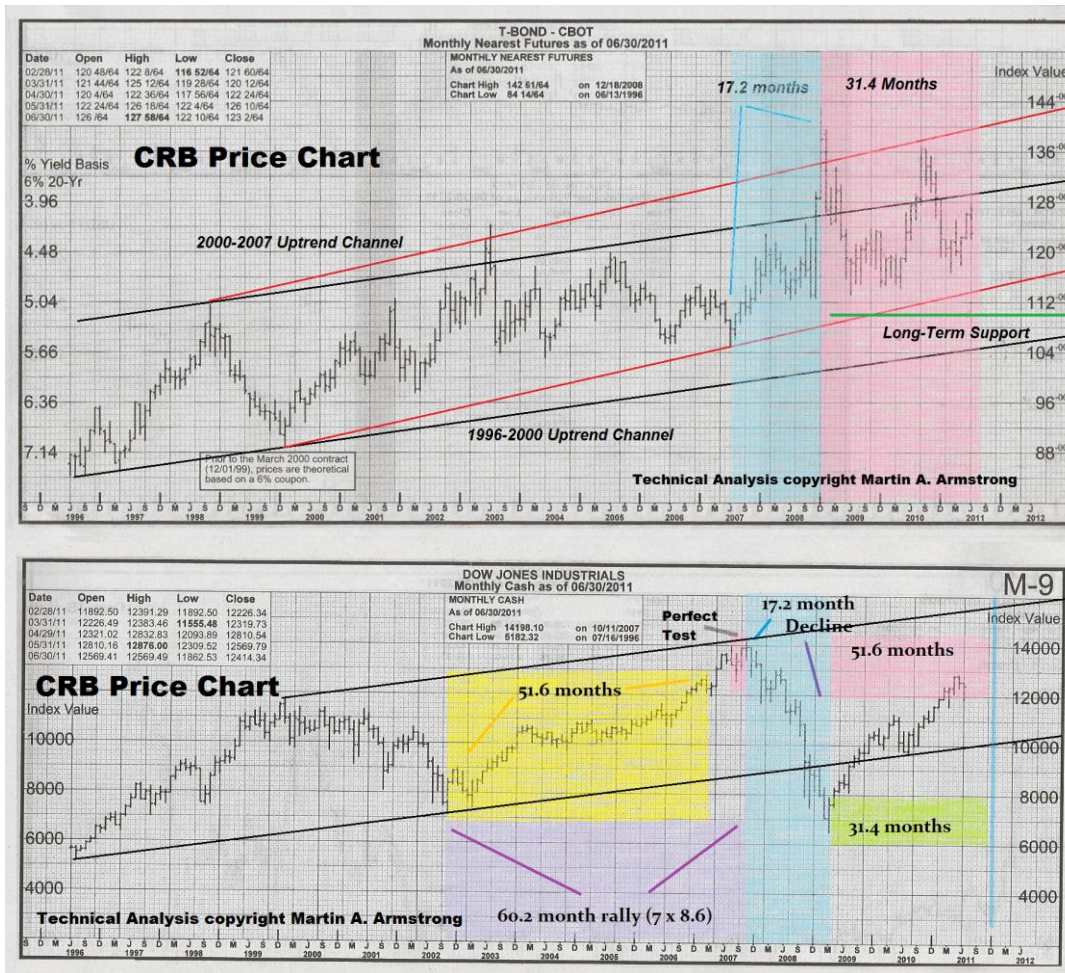
history that at first there was the Federalists who wanted a big central government and the Democratic-Republican Party founded in the early 1790s by Thomas Jefferson and James Madison intent upon preserving local power and custom. The Democratic-Republican Party split into various factions during the 1824 election, based more on personality than on ideology. When the election was thrown to the House of Representatives, House Speaker Henry Clay backed Secretary of State John Quincy Adams to deny the presidency to Senator Andrew Jackson, a longtime personal rival and a hero of the War of 1812. The Jacksonians, fiercely anti-central bankers not unlike the Tea Party, held their first national convention as the "**Republican Party**" in 1832. By the mid-1830s, they referred to themselves as the "**Democratic Party**," and the name has been official since 1844. The **Democratic Party** has often been called "*the party of Jefferson*," while the modern Republican Party is often called "*the party of Lincoln*."

Third parties do not grow up on the side of the road in some ditch. They traditionally emerge from **within** an existing party. The Tea Party movement has been closely aligned with the Republicans sharing some loose small government ideas. However, I have been warning about an **IMPASSE** in Washington because of the nature of how a third party will emerge and that by 2016 we could have a third party victory even in the Presidency. The Republicans and Democrats are career politicians. They would have cut a deal by now. But the Republicans cannot control the Tea Party members. This is the real interesting issue.

Those who have been surprised by this international chaos emerging from Washington should just step back a moment and look closer at the dynamics of the politics. True, investors also worry about the likelihood of a U.S. credit downgrade. This is not probable since the agencies are American and that would be rather unpatriotic given they got a pass on criminal charges for what they did in the mortgage debacle. The important distinction centers on the fact that this crisis is entirely voluntary and not driven by investors refusing to buy US debt obligations. True, the CBOE Market Volatility Index <.VIX>, a gauge of investor fear, jumped as much as 9 percent to its highest level since mid-March before pruning its rise. But this is short-term posturing and nobody believes the USA will actually default on a permanent basis. Some institutional investors have been moving to cash to be prudent. The worst possible outcome would be a delay for a month and then street investors ask for cash from mutual funds and hedge funds that would be unable to sell US securities except in the marketplace where prices would drop sharply. Of course a real balanced budget would be hugely bullish for stocks because all the cash that hides in the bond market would be forced to invest privately for one.



President Obama told Republicans and Democrats to find a way "**out of this mess**." One credit rating agency has said it is likely to lower the US's prized triple-A rating if the cuts in Washington don't go far enough. This is yet another posturing move much like a gorilla pounding its chest. The problem here, there is a lot of hair, but no muscle. August is 31.4 months from December 2008 high for the 30 year bonds achieved in the whole Mortgage Crisis when they reached 142 61/64 on December 18th. This suggests that we have reached a turning point and the attitude toward US debt will sustain a serious shift in sentiment. It appears we are facing a sea change in the debt markets. This nonsense is not helping the whole Sovereign Debt Crisis issue and the world now knows America is very unstable politically.



Being old-school, I still keep my hand charts to retain the “*feel*” of the markets. **CRB Price Charts** were something I used when I began in the 1970s. Absolutely everything is interconnected and there is nothing that is RANDOM in markets be it walking or running. Like physics, there is a definitive set of LAWS that the markets must follow. Those who refuse to believe simply cannot see. I will deal with this complexity in my future book, *The Geometry of Timetm*.

Here are two charts the 30yr bond and the Dow Jones Industrials. Note the low in the bonds took place in June 2007. The middle high in the Dow was July with the first being February and the last taking place on October 11th, 2007. This was precisely in line with the **ECM** frequency as the first unfolded exactly on the day of the model 2007.15 that was 51.6 months (4.3 years) from the October 2002 low while the last and final high was 60.2 months from that low (7 * 8.6). The high formed neatly at the top of the Uptrend Channel constructed from the low of 1996 to the **ECM** 2002 low with a parallel from the 2000 high. Until we accomplish a monthly closing ABOVE 12686, the Dow remains vulnerable to a correction. The highest monthly close has been only 12595.37. The main support begins at 11006. What these charts illustrate is the organization of time both **BEFORE** and **AFTER** the 2007.15 high in the **Economic Confidence Model**. We are now approaching the overlap period. August 2011 is the precise target in the bonds. In the Dow, we have this same period, Oct/Nov and then Dec/Jan 2012. It certainly looks like the chaos in Washington is playing precisely as it should and is exactly once again one time.