The headlines in the aftermath of the 1996 presidential elections will proclaim a victory once again for Slick Willy. This forecast is not based upon wishful thinking or gut feelings. Instead, this is the prognostication arrived at by our unbiased computer models.

Figure #1 represents our computer forecast that was originally generated and published back in 1992. Following the results of 1992, our model generated its forecast for the 1994 elections that shocked many of our clients at that time. Our computer projected that the Republicans would win both the Senate and the House of Representatives in 1994. Following the successful outcome of that forecast, the Associated Press picked up the story and interviewed a few Professors of Political Science who had not been able to correctly forecast the 1994 elections even 2 weeks in advance. When asked how a computer could possibly forecast the outcome 2 years in advance, the typical response was “luck” or coincidence.

The truth behind our model is far from luck. It is based upon the real issues that determine the outcome of an election - not flag burning, abortion or even capital punishment. Any political hack will naturally espouse the beliefs of their party. I once argued that point with Jack Kemp who felt that the people voted for Ronald Reagan in 1980 because of his economic ideas. That is a statement which is simply not true. The 1980 election was easily predictable by a computer based upon the dynamics of our model - economics!

Without exception, the political direction will ALWAYS change to the opposition whenever the economy moves to an extreme. The Great Depression was not caused...
by Hoover or any of his policies but by the combining trends of drought (which destroyed the commodity industry that represented 40% of the civil work force at that time), collapsing capital formation (the result of government debt going into permanent default for most of Europe, Asia and South America in 1931), and the high value in the dollar that help to reduce exports and sparked a trade war (similar to the effects that have brought Japan to its knees today). Under such extreme conditions, if Hoover's opponent were Mickey Mouse he still would have lost.

In 1980, inflation was running rampant and interest rates were on their way above 20%. Under such extreme conditions within the economy, again the vote swung to the opposition - this time Reagan. The 1984 election was won by Reagan on his ideas and a vote of confidence for his success. But the economy was not at an extreme point at that time, which always tends to favor the residing politician.

What we have learned by our correlation study of the economic and political trends is simple. Ideas count ONLY when the economy is steady. Whenever the economy moves to an extreme, the political trends switch teams. This is true about not merely the United States, but all nations. Even the might LDP in Japan has lost support in the face of a severe depression. The simple common denominator behind this effect is none other than human nature, which some term as a "fair weather friend" on a more personal level.

There are no flukes in life only solid predictable outcomes if one considers all the variables at hand. We have come to realize this basic fact over the years. If something is unfolding that was unexpected, it is merely an excuse to argue that events were unpredictable. Such statements are really saying "sorry - we didn't consider all the facts at hand, but nobody else did either."

The net direction of our political-economy is determined by the competing forces of domestic vs. international influences. In other words, the Great Depression was unavoidable from the US perspective because we could not control the economies and political processes in Europe or Asia that lead to massive government defaults on their sovereign debt issues. We could NOT prevent unemployment from rising to 25% by passing a law against drought. Nature simply did not cooperate and Congress is incapable forcing nature to make it rain. The Panic of 1907 was unavoidable because we could not prevent the Great San Francisco Earthquake of 1906. We must face reality! We cannot pass a law to control nature, international trends or prevent such things from disrupting our domestic economy.

Our model, therefore, is based upon monitoring all these trends globally. Our global perspective is then correlated to domestic trends and economy behavior. Consequently, our computer model fore-
casts have nothing to do with political bias, hopes or dreams - only the facts.

Some would argue that it was unpredictable to forecast that Perot would have captured 19.02% of the popular vote back in 1992. This again, is a statement that is based upon shallow research. The conservative element within American politics has ALWAYS split into two groups. It did so in the 1860s when the Republican Party grew from that split to elect Abe Lincoln. That marked the end of the Whig Party and forever changed the Democratic Party which had begun as the anti-federalist movement but quickly became the new federalists once in power. In 1912 the vote split once again with the 3rd party taking 30.7% of the vote, the Republicans dropping to 24.6% to the benefit of the Democrats who captured 44.6%. Clinton's victory of 1992 came with a popular vote of only 43.28% - the lowest in history for a winning president. So what you see is that 1992 was NOT a fluke, but more of the same from a historical perspective.

Based upon our economic projections, we see the future trends as shocking for most who tend to believe that the direction of a rolling stone does not change course. If there is one forecast that can be made with certainty, it is that the future will not be exactly like the present.

Figure #2 represents our forecast for the 1996 election. The white portion of the large vertical bars represent the possible range for the popular vote. We can see that the 1992 results fell all within those projected target zones. When we look at these projections for 1996, the Democrats are still favored. 3rd Party activity is possible should Perot throw in his hat - but there is no possibility for a 3rd Party victory at this time in the game. Clinton could win in 1996 with a majority this time coming in as high as 56% but no less than 51%.

Figure #3 offers our projections for the Presidential elections of 2000. Note that the Democrats decline sharply and could come in as low as 42%. 3rd Party could come in as high as 31% but there is the outside change of gaining as high as 55%.

When we review our computer model's forecast, the results appears to be Democrat in 1996, Republican/3rd Party in 2000 and 3rd Party 2004. It also projects that a Clinton victory in 1996 is most likely going to represent the LAST Democratic president in the United States. The Democratic Party itself will fade away by 2004 and eventually become extinct in the new 21st century.

As the population begins to age and the generation of the Depression babies and World War II vets are no longer with us, the political landscape will also change. The generation that is coming up to bat in the next 10 to 15 years is clearly more skeptical about government. The hippie generation of the Great Society will be faced with government defaults on just about every trust fund currently in place as we pass the year 2000.

Clinton's speech in which he proclaimed that "age of big government is over" touched the very heart of the problem. But like the Russians who claimed that they would reform their economy slowly, the problems are deeper and much more serious than Clinton is willing to address at this time. By failing to deal with the trust fund problems and rising taxation today, we are insuring that the problems in the very near future become much more serious. Consequently, the economics behind the scenes will dictate the future. There is a very serious risk that the once Great Society experiments will go down in history as the Great Folly of an unrealistic generation.

As the economy begins to swing ever more violently with greater volatility in the years ahead, the net impact will be one that completely discredits the Democratic Party in the same manner as the Reform Party has been discredited in Russia. In the aftermath, our computer is forecasting the demise of the Democratic Party and the birth of a new 3rd Party movement that will eventually capture the hearts and souls of America. Without political bias, those of us under 50 years of age have a greater chance of being abducted by aliens than ever receiving the full benefits as our parents with the same conditions and terms as the present.
What Goes Up Must Come Down
Will the Dow Crash by 20% in 1996?

The US share market has been rising sharply since the dollar bottomed last April. The bulk of this rally has been prompted by overseas investors who base their decision largely upon the fate of the dollar. To the non-US investor, the rally that has taken place is even stronger than what we see in domestic dollar terms. This is raising the risk level for a correction to better than 90% at this time.

From the Japanese perspective, the Dow has risen by at least an additional 20% on average due to the rise in the dollar compared to the yen. Domestic market analysts continue to focus on the Fed and the future prospects for interest rates. Yet this rally has continued through the Fed’s raising of interest rates 7 times! When such analysts were unable to explain the market’s ability to rise in the face of rising interest rates, the stock reply was simply - the market was stronger because it was expecting lower rates in the future.

This sort of nonsense is precisely what gives forecasting a bad reputation. Much of this analysis is narrowly focused entirely upon domestic market considerations with a particular focus upon interest rates. There are simply too many variables at work to ever bring the final analysis down to one single factor. Our illustration above offers the view of the Dow from the Japanese perspective. What is clear, is that ALL major bull markets require a strong underlying currency whereby foreign interests are enticed into local investments.

The overall direction of the Dow has two choices. First: We see the potential for an early February high followed by a decline going into May. This type of correction could manage to be as much as 20%, thus shaking all the bulls out of every tree and back to reality.

Nonetheless, 20% corrections are typical in all bull markets. The last one came in 1990 and it served its purpose by turning the faces of just about every bull a bright attractive shade of red. Still the market continued its rally after a brief 3 month pause and record highs were once again in focus while the bulls argued a false rally.

Corrections serve their purpose because they help to shift the balance of power within a market from over-bullish to bearish. Once the sentiment has been reversed, then the buying begins again fed initially by short-covering.

Of course there will be the typical analysts who will proclaim that they forecast the market decline. Many will argue that the prospects for lower rates is declining and therefore their analysis showed that a top was in place. If things were that easily, we should all be billionaires.

And then there will be the doomsday prophets rising to the occasion to proclaim the next 1929. They will scare the public with projections of 5000 on the Dow without ever considering what honestly caused the Great Depression - namely government bond defaults on a major scale.

No the market is not ready to fall completely apart. The sky is not going to fall and yes the sun will still rise even if we have a 20% correction. While a 20% drop is within the realm of possibility, there is still support under those recent lows at about 12% from current levels.

The primary support for the Dow begins at the 4650 and 4400 levels. If the February high is NOT exceeded in March, then a decline into a May low will unfold. We would expect this decline to retest either the 4650 or 4400 level on the Dow at worst. Holding this area leaves the long-term still bullish.

Any stock index that reaches a low in May could be setting up for one heck of bull market into a major high in 1998. So what goes up, also goes down and this appears to be one of those down times in life. Only a continued rally into May where the Dow test the 5800-6000 area will raise the potential for a 1996 high followed by a 1998 low.
The Russian election for the lower house of Parliament - the Duma - passed with little discussion and even less surprise. Political and financial analysts had already discounted the strong showing by the communists and nationalists alike. The perception that market-reform had gone too far to turn back was seen to be supported by the fact that even the reformers took a large number of seats relative to expectations. The assessment that the Duma has very little constitutional power led some analysts to conclude that the new majorities would display little leverage in policy-making or direction. Post-election commentary reflected the belief that stability and reform would continue. After all, the communists and nationalist gained but the reformers gallantly held on. The changes in Yeltsin’s cabinet were a natural reaction, indeed healthy, in this young parliamentary democracy. Slowing reform is expected but what has been put in place will remain. No alarm bells and no real surprises. However, the assumption that a dramatic change in Russia’s direction will come as an eventful surprise is misleading. Indeed, Russia has already turned and the subtle game to watch is Presidential politics.

Many investors have much to lose if confidence in Russia’s reforms fail. Only four years ago, Russia’s stock market was barely in existence. Today, nearly $20 billion is invested in Russian stocks alone. The majority of investors have chosen securities - through Minfin, GKO’s, and most recently ADRs - since the regulations and settlement procedures of the equities lack transparency and stability. Treasury Bills (GKO) alone total about $17 billion outstanding. The first Russian ADR on U.S. OTC market is by the company Lukoil. Lukoil is the fourth largest oil producer in the world, holds half of the world’s estimated reserves, and ranks fifth in Russian market share. A final tranche of a $6.5 billion loan is due sometime this month in the total of $500 million and the current $9 billion loan, all but finalized, is the 2nd largest ever made by the IMF after the Mexico bailout. [Conditions for the loan mandate a CPI no higher than 1.9% and a budget deficit no higher than 3.85% of GDP ( $18.2 billion)] On January 26, the IMF put the brakes on the loan with indications that the White House and G-7 members had made the suggestion. Certainly, Vice President Al Gore, who has prided himself on developing and facilitating means for greater investment flow into Russia, will face political embarrassment if the reforms turn back. President Clinton will also be hard pressed as foreign diplomacy is elevated in the presidential campaign. Clearly, too much stock has been placed in Yeltsin as a reformer when it should have been remembered that Yeltsin is a politician.

It was Yeltsin’s political skills and strategy that made him the first democratically elected President of Russia and not his economic reforms. Mr. Yeltsin has officially announced his candidacy for President and a campaign headquarters was set-up on January 15 using government facilities as well as a government official - Oleg Soskoves (who was supportive of Mr. Chubais’s ouster since he failed to consider Russia’s “distinct situation”). The legality of this situation is being questioned by members of the Duma. In the process, Russia’s foreign policy and economic reforms are being shaped by Yeltsin’s strategy for political survival. Key variables to watch are his Cabinet changes, the majority leaders of the Parliament, and those contesting the Presidential elections in June.

Under Russian law, a member of government cannot also be an elected member of the Duma. In retrospect, an analysis of which members of Yeltsin’s cabinet and government were running for the Duma could have been a strong indication that reform had reached its limit under Yeltsin and that the Parliament was the other option available to the reformers. Realistically, if reform hadn’t been muddied, so many reformers wouldn’t have opted or been co-opted into resigning and moving on to the Duma - which is primarily responsible for writing budgets and introducing legislation. In late December, just several days after the elec-
tion, the first official in a series stepped down. There remains speculation whether some of the cases were a voluntary resignation of office or a move to pre-empt being fired.

The elections changed the make-up of the 450 seat Duma quite sharply. More importantly, the elections changed the shape of Presidential politics. The Communist Party, headed by Gennady Zyuganov, won a total of 158 seats. The Liberal Democratic Party, headed by nationalist Vladimir Zhirinovsky, won 51 seats. Reformer and centrist Russian Prime Minister Viktor Chernomyrdin’s party, Our Home is Russia, secured 55 seats. The pro-western leading reformist party headed by Grigory Yavlinsky, Yablok, won 45 seats. The Agrarian Party, which is the Communist Party version for rural Russia and against private ownership of land, succeeded in getting 20 seats. The remaining seats were taken by several small and splintered parties that only won single-constituency seats. The substance of continued reform has been muddled by the new majority while the direction of the Russian Federation as a whole has become more sensitive to popular politics and public campaigning. The result of the elections changed the issues and players contesting the Presidential elections in June and therefore forced Yeltsin to choose a strategy.

For three weeks after the election, Russian Prime Minister Viktor Chernomyrdin insisted that "changes, shifts, sackings - nothing of the sort will happen." Newly elected Communist Party leader, Gennady Zyuganov, went as far to say the "The country doesn’t need very sharp turns just now." Even as late as January 18th, reports in the press were showing up that the IMF was not shaken by the elections or the firing of Deputy Prime Minister Anatoly Chubais, who led reform and headed macroeconomic policies. Even the White House and members of the G-7 refrained from disclosing the severity of this situation. However, five weeks after the election, a very different story is developing.

**SEVERAL KEY MINISTERS REPLACED**

While people expected the Foreign Minister to announce his resignation, they were surprised to hear Deputy Prime Minister Sergei Shakhrai announce his. Although relatively unknown, Shakhrai was a long-time reformer and close advisor to Yeltsin. He often provided an ear for reformers.

Next to go was 5-year veteran Russian Foreign Minister Andrei Kozyrev, who was much criticized for views that were too pro-western. His future was in doubt since Yeltsin decreed into existence a Foreign Policy Council which is to serve in an unspecified capacity. Kozyrev’s replacement, Yevgeny Primakov, was named to the post on January 10. The former spy chief brings with him experience in the KGB, concerns about the expansion of NATO, and goals of developing a successful foreign policy and liaison with the Middle East Nations, China, and India. His foreign policy objectives are likely to please nationalist leaning Zhirinovsky who advocates a north-south Russian policy objective.

Sergei Filatov was next to leave who was a well-known reformer and Chief of Staff to Mr. Yeltsin. He has been replaced by Nikolai Yegorov who was the former Nationalities Minister, known for his anti-reform position and who also lead the support for using strong military tactics for invading Chechnya in December of 1994. Mr. Yegorov is sure to have an impact on military policy decisions. This will be more visible as Russia deals with the volatile areas in Tajikistan, Trans-Dneister, Siberia, and the Muslim dominated south-east republics.

The biggest indication that Yeltsin was positioning his government to back-peddle on pro-reform initiatives came when First Deputy Prime Minister Anatoly Chubais was fired on January 16. Mr. Chubais was the designer behind the economic reforms that privatized government assets down to less than 50%. He pioneered many pro-market efforts and was a major player in structuring and implementing Russia’s macroeconomics policies. Mr. Chubais also led the negotiations with the IMF to secure financial aid and was scheduled to represent Russia at the Davos Conference in Switzerland at the end of January. It has not been made clear whether or not his successor, Vladimir Kadanikov appointed on January 25, will pick up functionally in Mr. Chubais footsteps. What is expected is a definite move from the pro-market substance of Mr. Chubais' work. Kadanikov, well recognized as an industrialist and protectionist for domestic interests, has been head of AO Avtovaz car plant since 1988 and employed there since 1967. Avtovaz, reportedly heavily in the red and dependent on government subsidies, is known for the model Lada and is the largest car maker in Russia. Not much is known of Mr. Kadanikov but current expectations are somewhat doubtful.

More doubt was added to Yeltsin’s intentions when he appointed Alexander Kazokov as Privatization Chief on 1/26. (The position has been officially open since midsummer last year when the former chairman left the government to head up efforts of Chernomyrdin’s centrist reform party Our Home is Russia which gained 55 seats.) Kazokov is an economist and worked at Gosplan- which was the Soviet-era central economic planning bureaucracy. The pace at which sell-offs has taken place is sure to slow down as well as the laws and methodology used in structuring and financing privatization. Kazokov has been a chief aide to Yeltsin for regional contacts. His appointment may signal an effort to coordinate regional politics and privatizing efforts in a way that may be politically helpful to Yeltsin come June.
A final marker of presidential political strategy and the impact of the elections was shown when the head of the Human Rights Commission and member of the Presidential Council resigned on January 23. Sergei Kovalev, candidate for the 1995 Nobel Prize, has consistently opposed the war in Chechnya and the tactics Yeltsin has employed. Kovalev was well-known to many Russians and his departure from the government is a clear defeat for democracy and law. He is quoted from an open letter to Yeltsin published in the daily Izvestia as “I can no longer work with a president whom I consider neither a supporter of democracy nor the guarantor of the rights and freedoms of the citizens of my country. ...If democracy in Russia is fated to survive, then it will be despite, not because of, you.” (BBN 01/23) Certainly, these revelations should cause some to take pause in their support of Yeltsin. One might go as far to say that the best way for Russia to resist a hard right turn would be for Yeltsin to resist running for President.

President Yeltsin has changed several key ministries in order to distance himself from reformers in the public eye and to appease the new legislative majorities. Yeltsin has refocused his speeches and remarks on the voters with sympathies for the communists and nationalists. He has taken up the cause of remembering the people during economic reform and ITAR-TASS made note of his remark that in 1996 the social situation must be improved.” He has unofficially unveiled a campaign theme by drawing attention to his 1996 goal to fight crime, corruption, poverty, and raise the standard of living. Incidentally, Yeltsin has reportedly increased payments and subsidies to domestic and industrial concerns with hopes pegged on the belief that the negative effects won’t be felt until after the June election. Yeltsin has also denied the new majorities the powerful weapon of “guilty by association” and also is forcing them to “show their hand” by replacing the leading reformers. Key policy areas that have been affected are: foreign policy, military, macroeconomic reform, privatization, domestic concerns, and human rights. Yeltsin has moved his government more to the right and promoted a quiet contest for influence between the communists and the nationalist. He possibly could emerge as the candidate between the two extremes while also forcing anti-reform parties to compete and thus split the votes instead of teaming up in a compromise.

It is an interesting side note that Prime Minister Viktor Chernomyrdin has emerged from this shake-up relatively unscathed. His centrist positions and ties with western financial and political leaders provide Yeltsin with a necessary back door around his own rhetoric and his Ministers who are decidedly leaning right. While Chernomyrdin enjoys relatively healthy public support and his reform party secured around 11% of the popular vote (controls 12% of the Duma), he has not yet officially entered the presidential race. His absence from the race thus far means that Yeltsin can avoid competing for reform votes which would aggravate the anti-reform public.

At the same time, Yeltsin is able to attack other reform parties as being too extreme while placating the criticism of the new Duma majorities. Chernomyrdin’s predecessor, Yegor Gaidar, heads the most market-minded and pro-west reform party Russia’s Democratic Choice but only garnered 2% of the Duma seats. This party competes with a milder pro-reform party, Yabloko, which secured 10% of the Duma seats. Chernomyrdin’s continued presence in the government further complicates any possibility of these three parties merging in order to field one reform candidate against the nationalists and communists. Certainly, Chernomyrdin raises questions about Yeltsin’s presidential strategy.

Driving domestic policy issues is the Communist Party presidential candidate Zyuganov. Competing for a share of communist/nationalist votes is the hybrid former General Alexander Lebed. Until his poor party showing in the December elections, the Congress of Russian Deputies was thought to have the broadest appeal and challenge to Yeltsin. To his right, Zhirinovsky has climbed on board as the nationalist candidate. The centrist reform party of Prime Minister Chernomyrdin is competing with more western-minded reformer Yavlinsky for the liberal vote - both of which have not officially declared candidacy. At the most liberal end of the reform spectrum is Yegor Gaidor and his party Democratic Choice for Russia. Although Yeltsin officially declared his candidacy on February 15, he has yet to qualify his platform or adopt a party affiliation. While the reformers remain too fragmented to command a broad coalition, Yeltsin has focused on preventing an election result that leaves the top two spots to an anti-reform candidate. Presidential elections would go to a second round between the top two vote getters if no candidate wins 50% of vote on June 16.

Ironically, democracy is working in Moscow just as its working in Washington D.C. when one considers the impact of presidential politics. Yeltsin has been served notice by the newly-elected Duma, he has made the appropriate changes in his Cabinet in order to facilitate policy change and political fruit, his rhetoric is not at all similar to speeches of 1991 or 1993, and all the while the Russian President maintains that he has not changed course but still occupies the center of two extremes.