Amanita Market Forecasting

Free Amanita Newsletter 2/17/10

1 Subscriber growth +41% in December 2009

Let me start by saying thanks to all readers for their interest in my service: alone in December 2009 the number of premium subscribers rose by +41%, the best month in history. I want to use this opportunity to thank everyone contributing to the success, especially Peter Ressmann, Petra Podesser, Anna Ilias, and Chris Wainwright.

2. Money supply and inflation: „Inflation ahead, Captain“

The deflation camp is already cracking open the bubbly because both in the US and in Europe M3 growth dropped to an all-time low, into the negative area. But this time again there is one thing the deflationists hadn’t reckoned with... In the following article I will tear these deflation arguments into pieces.

3. Gold and pitfalls of Elliott waves (EW)

Frequently readers send me external Elliott wave counts, that’s why I want to discuss the theory and application of Elliott waves in this article. Perhaps it is the influence of the hyper-deflationary Elliott wave father figure Bob Prechter (founder of Elliott Wave International EWI), but it seems that the bulk of wave counts are bearish most of the time for ‘everything’. Since the gold top in December 2009 the excited cackling has become very loud again, although in reality we haven’t seen a significant gold weakness but mainly the (anticipated and predicted) dollar strength: at present gold in euro breaks out to a fresh all-time high (Link)! I use Elliott waves (EW) in my forecasts, but quite different than the mainstream.

4. Mystery 2012 (part 2): the Age of Aquarius hoax

This is the 2nd article of an article series on the topic “2012”, which today is becoming more and more discussed (2012 was also a movie title). At times the topic 2012 is mentioned in relationship with the so-called Age of the Aquarius, a myth I will debunk in this article.

I bless you!

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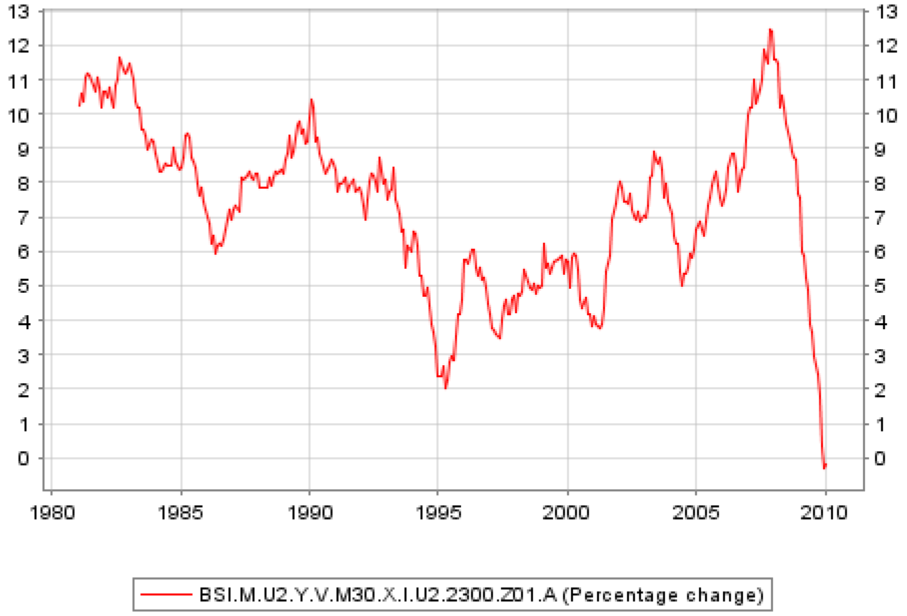
content: The Amanita newsletter is sent out every 1-2 months, it complements the premium Amanita market letter with articles on financial astrology and current information regarding Amanita Market Forecasting. Sometimes it also contains samples from the premium market letter. For further questions please consult the FAQ.

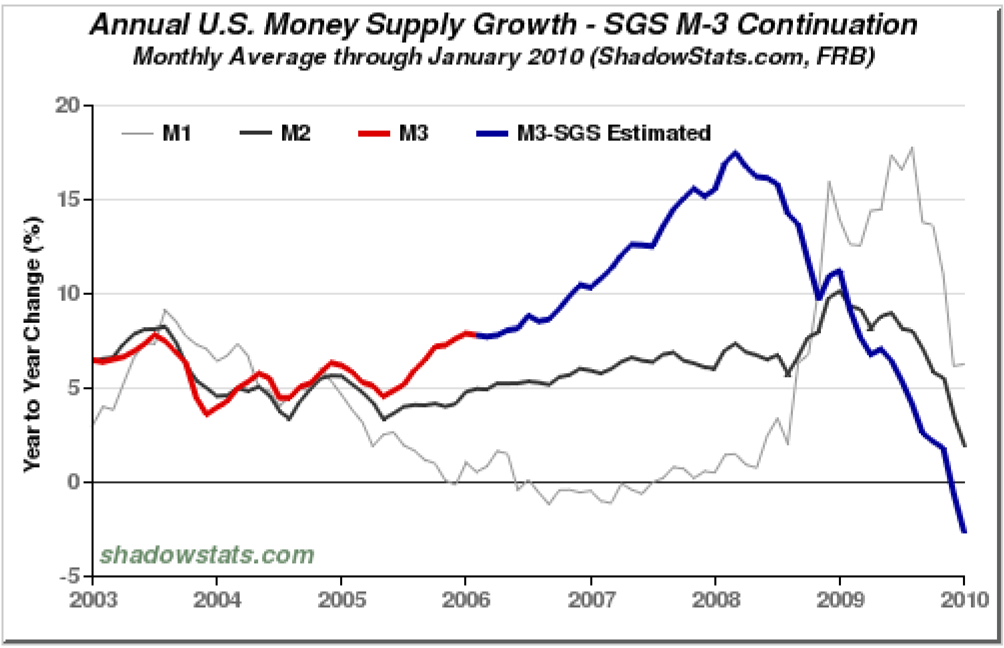
Money supply and inflation: „Inflation ahead, Captain“

The deflation camp is already cracking open the bubbly because both in the US and in Europe M3 growth dropped to an all-time low, into the negative area. But this time again there is one thing the deflationists hadn't reckoned with... In the following article I will tear these deflation arguments into pieces.

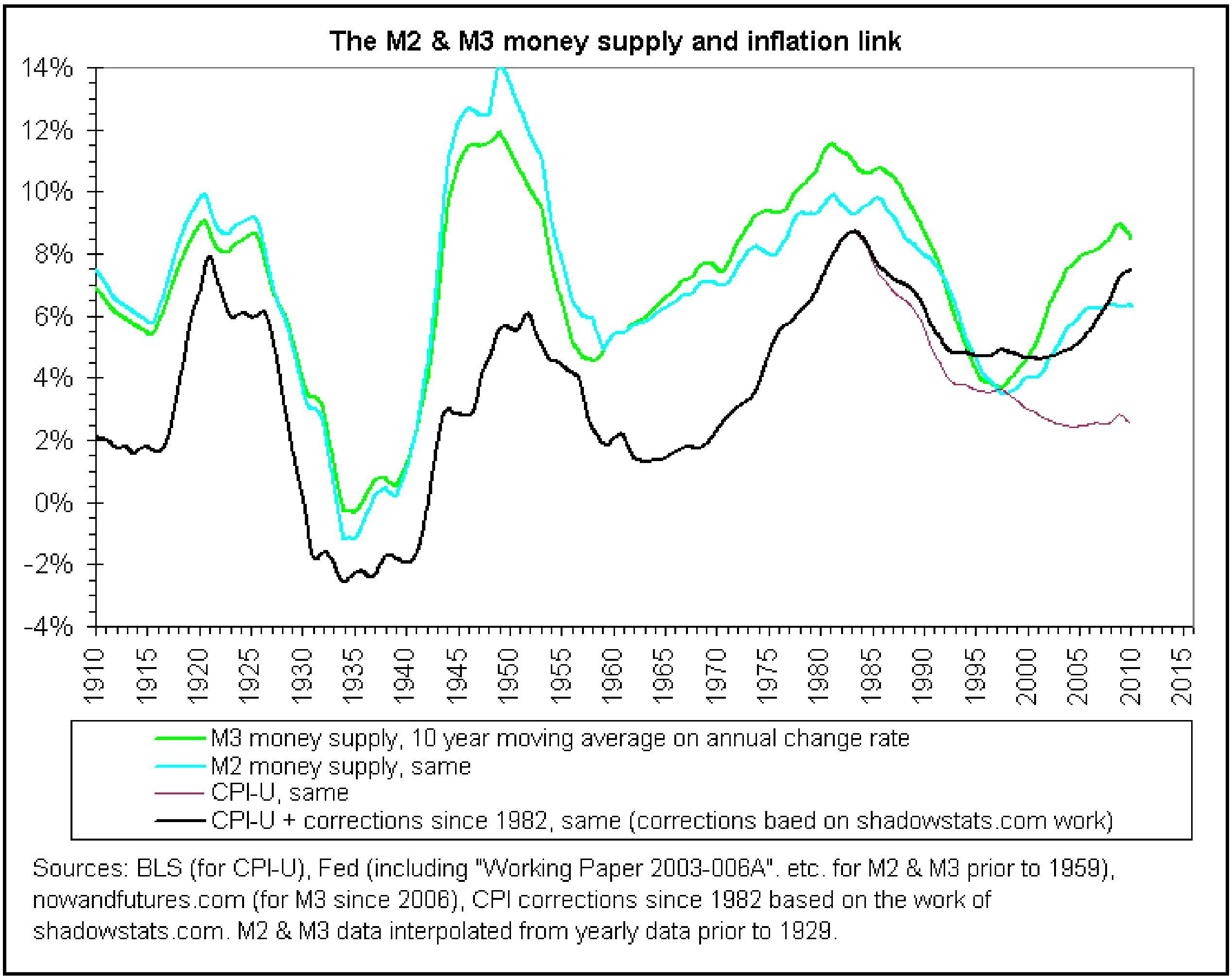
Let's start with the M3 chart for the Euro area (Link):



John Williams' reconstruction of US M3 looks even more dramatic:



According to the Austrian School of Economics (which, however, does not offer a unified theoretical framework) inflation is money supply expansion minus GDP growth. From a historical perspective, the broad monetary aggregates (M2, M3) and inflation have a quite high correlation. Below please find a 10-year smoothed chart (Link).



Now the crux: during the normal stage of the capitalistic system both public and private/ corporate debt rise. This causes inflation to rise, correlating both with public and private/ corporate debt. However, wave 5 of the current hyperinflation beginning in 2009 is dramatically changing the rules of the capitalistic system! The timetable for the ongoing hyperinflation wave was proposed as soon as 2006. There is absolutely no doubt that wave 5 of the hyperinflation started after a brief disinflationary wave 4 in the years 2008-9 with the expansion of US central bank money (M0) by more than +100% and government budget deficits soaring to all-time highs. The 2 biggest nations in GDP terms are splashing out:

(1) USA: Federal debt rose from $10 trillion to almost $12 trillion, which is about 20% of true GDP (exactly as predicted in 2008)

(2) Japan: Even according to official numbers, Japanese government in terms of GDP has risen from 173% in the year 2008 to an incredible 190% in the year 2009, which makes Greek problems looking kind of cute.

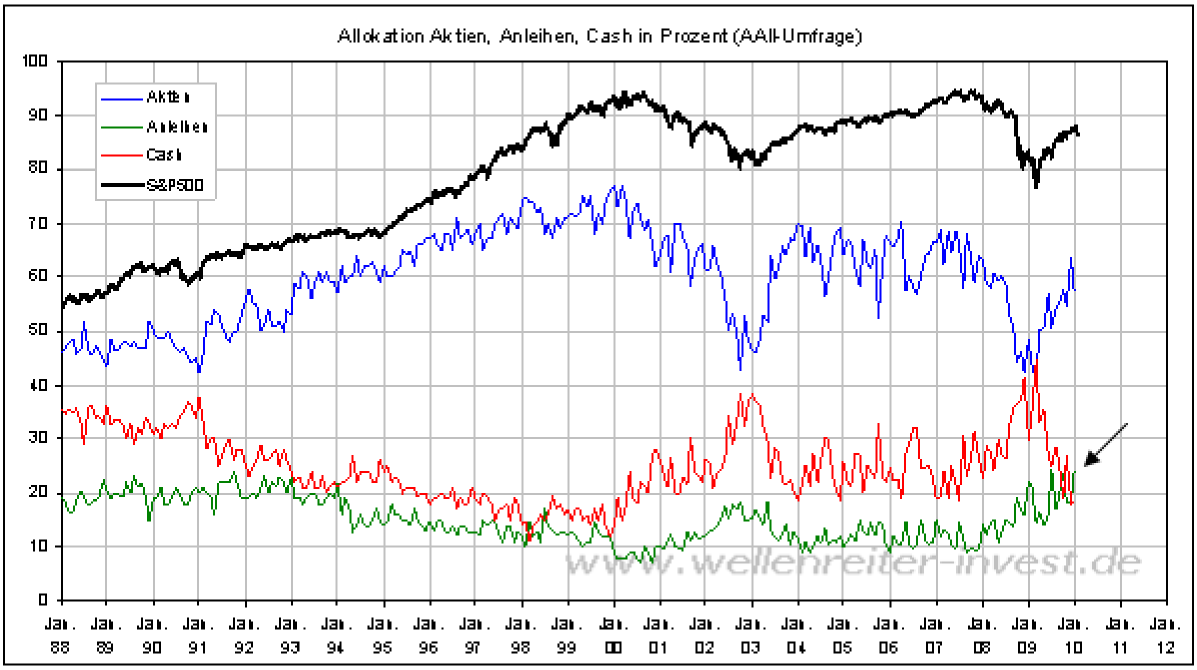
In the debitistic chain letter (Link) the very last debtor has to step in and act in order to keep the debt orgy alive (at least in the industrialized states): public authorities.

That's why private and corporate debt on the one hand and public debt on the other hand are starting to diverge dramatically, so government debt becomes the main (and only) inflationary force. Please note that most of the public debt is *not* included in M2 or M3, but only in the broader US money supply L like liquidity: L = M3 + public debt (simplified).

Publishing L was officially discontinued in the late 1990s when (as an exception) the US had no budget deficit, so L was not important at that time, this was perfect timing… Needless to say that due to the soaring public deficits global L is currently exploding. Yet the reconstruction of L attempted by nowandfutures.com is totally wrong in my opinion, the reason being there seems to be massaged numbers (Link) as research by Eric Sprott indicates:

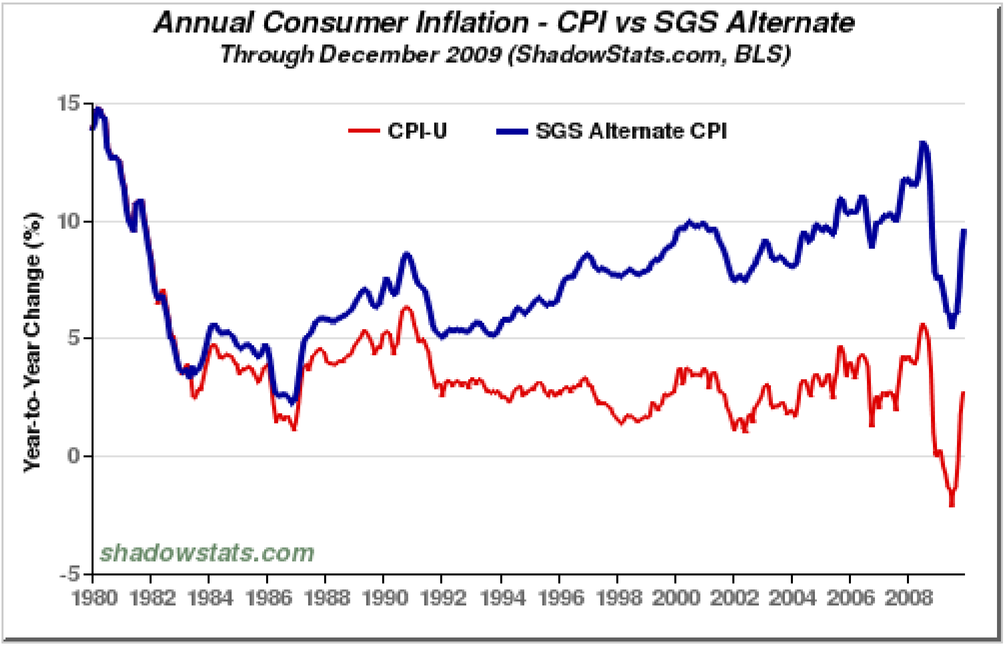
In the latest Treasury Bulletin published in December 2009, ownership data reveals that the United States increased the public debt by $1.885 trillion dollars in fiscal 2009. So who bought all the new Treasury securities to finance the massive increase in expenditures? […] To our surprise, the only group to actually substantially increase their purchases in 2009 is defined in the Federal Reserve Flow of Funds Report as the "Household Sector". This category of buyers bought $15 billion worth of treasuries in 2008, but by Q3 2009 had purchased a whopping $528.7 billion worth. At the end of Q3 this Household Sector category now owns more treasuries than the Federal Reserve itself. […] We all know that the Fed has been active in the market for T-bills. As you can see from Table A, under the auspices of Quantitative Easing, they bought almost 50% of the new Treasury issues in Q2 and almost 30% in Q3.

A chart of the first-class analyst Robert Rethfeld based on AAII shows a rush into bonds in 2009 (approximately doubling in absolute terms) but certainly not by +4600% as the official statistics suggest.

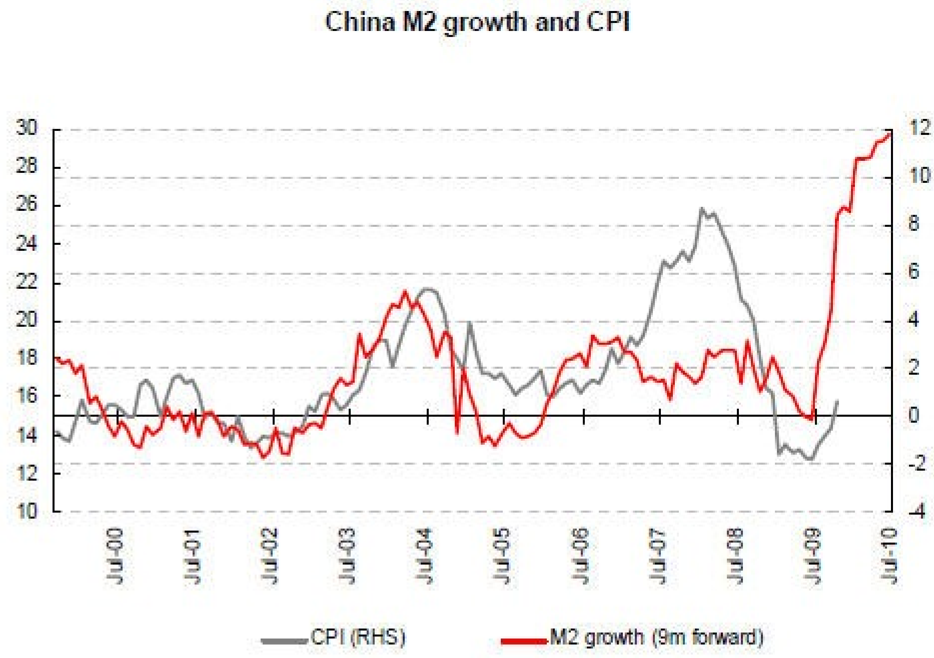


Thus in the ongoing wave 3 of 5 of the hyperinflation at least 30-50% of the US federal deficit is financed with fresh money from the printing press. Meanwhile the US budget proposal 2011 is out, targeting a deficit of $1.6 trillion – which is about 10% of the official and 15% of the real-word US GDP. A very cunning fellow invented the standard number "deficit in terms of GDP" although it is not relevant. Why should you divide the deficit by the GDP? Because it is the biggest number available, so the percentage looks as small as possible, so the average citizen is calmed. This is a very clever 'soft' statistical manipulation (Link) that is never questioned. The only relevant number for a household (no matter if it concerns a private person, a company or a state) is the balance of revenues (here: $2.2 trillion) and expenses (here: $3.8 trillion). So calculated expenses are more than 70% higher than planned revenues. This sounds a little bit more alarming than "10% deficit", doesn't it? And of course it will be interesting to see how high the deficit will really be…

Wave 5 of 5 of the hyperinflation is defined as almost 100% of the public debt being financed with the printing press. Already by today real-world USD inflation has risen to 10%, although it should fall again with and after the coming super-crash in the summer of 2010 (wave 4 of 5). Wave 5 of 5 should begin in 2011 with monetary velocity exploding as money devalues almost daily, so money is passed on as fast as possible: either it's consumed or invested (especially real assets), thus heating up the crack-up boom.

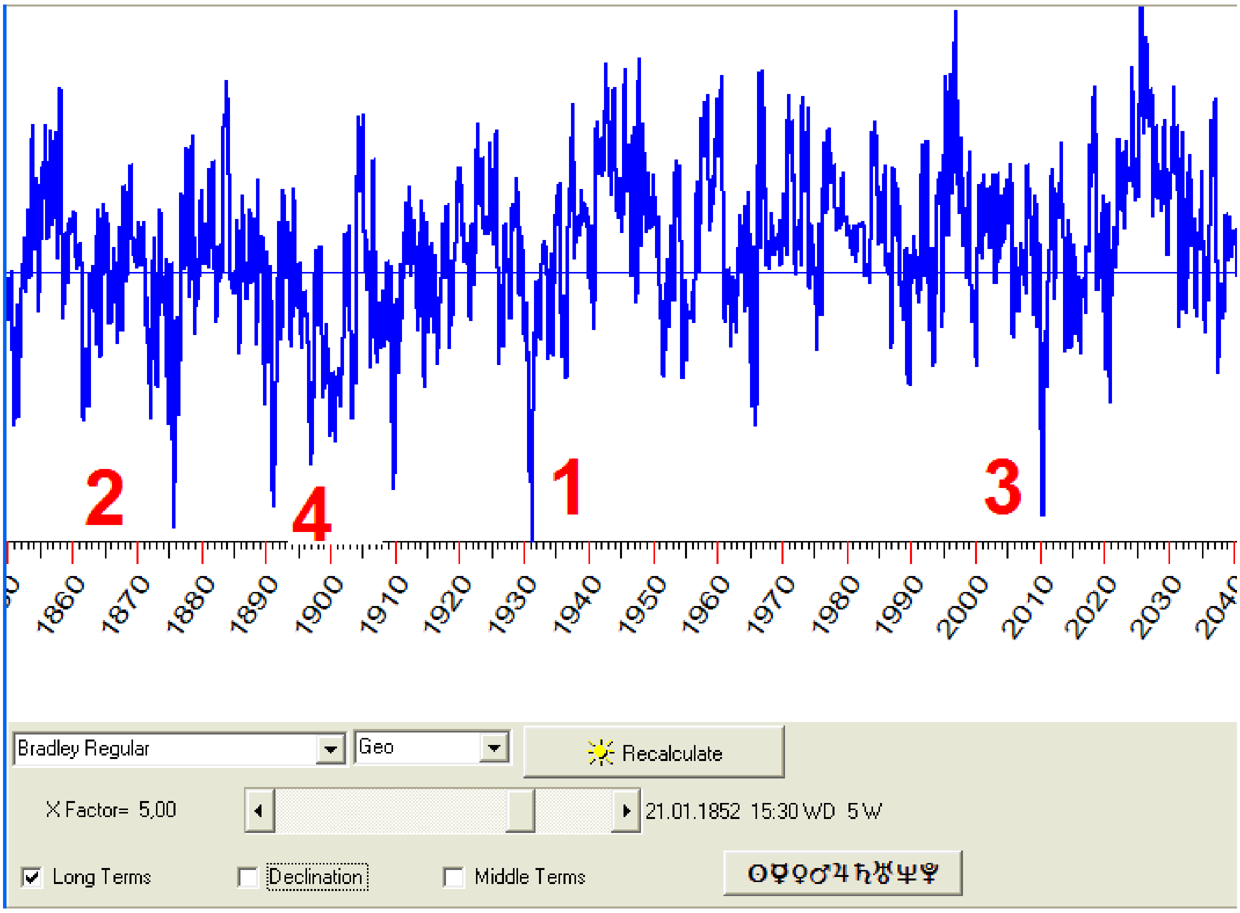


The BRIC states under Chinese leadership are lagging the industrialized nations somewhat. Their dynamics are still partly emerging from the 'private' sector, that's why M2 is growing at a whopping +30% (Link).



Why to expect a disinflationary wave 4 in the 2nd half of 2010? In August 2010 the Bradley siderograph drops to the lowest level since 1931. The Bradley model assigns positive values to harmonic angles (60°, 120°) and negative values to tension angles (90°, 180°), then the sum is calculated. The Bradley low of the past 500 years (start of modern history) was in the 1640s, at the end of the 30-year War (1618-48) and shortly after the first speculation bubble in history had burst (1637 Tulip mania in Amsterdam). Below the siderograph, plotted from the 19th century with the "Market Trader" by Alphee Lavoie, shows:

1. The most important low in 1931 was set in the middle of the biggest depression in history 1929-33.
2. The 2nd lowest value in 1875 was in the middle of the crisis of the 1870s that began with the crash („Gründerzeitkrach") at the Vienna Stock Exchange in May 1873. Afterwards the European bourses experienced the sharpest bear market in the 19th century.
3. The 3rd lowest Bradley index is August 2010: isn't it interesting that the two historical models for the current crisis are 1931 and 1875? The reason for the low value 2010: there are massive disharmonic angles (T-square, partly even Grand Cross). This is the mathematical specification of the ‚cardinal climax', a term coined by my appreciated (always worth reading) Ray Merriman.
4. The 4th lowest value in the chart in the early 1890s was not as spectacular, but in the early 1890s we saw the biggest bear market in 20 years.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Gold and pitfalls of Elliott waves (EW)

Frequently readers send me external Elliott wave counts, that's why I want to discuss the theory and application of Elliott waves in this article. Perhaps it is the influence of the hyper-deflationary Elliott wave father figure Bob Prechter (founder of Elliott Wave International EWI), but it seems that the bulk of wave counts are bearish most of the time for 'everything'. Since the gold top in December 2009 the excited cackling has become very loud again, although in reality we haven't seen a significant gold weakness but mainly the (anticipated and predicted) dollar strength: at present gold in euro breaks out to a fresh all-time high (Link)! I use Elliott waves (EW) in my forecasts, but quite different than the mainstream.

My EW criticism condensed to 7 points:

1. information processing: It is the ruin of counting when wavers are pretending they are just objectively labeling waves while in reality they are just counting their (mostly deflationary) opinion. The average person *can not* blank out their foreknowledge, i.e. an objective wave count is only possible with charts you know absolutely nothing about (e.g. fundamentals). Brain research of the past decades has taught us a lot about human decision-making, which works this way (simplified): first the decision is made by the unconscious mind (e.g. labeling of waves due to one's deflationary bias) and *afterwards* (sic!) the rational mind is looking for a reason. The only way for more objective decisions is to harmonize both brain and heart:

- brain (EEG): The goal is to invigorate the frontal lobe, especially the left one, associated with rational thinking. This is achieved through meditation as empirical studies have proven, e.g. with elite monks of the Dalai Lama. Ground-breaking research has been conducted by Gerhard Eggetsberger here in Vienna, Austria. The purpose of meditation is to empty your mind from concepts, emotions and preconceived opinions, but this is a very long path. Although I have received almost all truly creative and ground-breaking insights either during meditation or dreams, I am still at the beginning after 16 years of meditation.
- heart (ECG): Whether you are centered in your hearth and thus objective (heart coherence link) can be measured through the heart rate variability (HRV), as the trailblazing research by the Californian Institute of HeartMath (Link) has shown.

For those 99.99% of all analysts who are not elite meditators the only viable option is to disclose one's bias and to critically question one's counts. A good alternative for more objectivity are computer counts.

2. contrary perspective: The second argument is linked to the first one. The large popularity of the waves is probably due to the fact that they do *not* (sic!) work the way they are commonly interpreted. Instead, they offer a terribly subjective method to lose as much money as fast as possible, in accordance with crowd sentiment which is wrong most of the time. Elliott waves in the hand of laypeople or semi-professionals are mostly a Rorschach test saying little about the market but a lot about the analyst.

3. impact of the elites: The performance of an incompetent but unbiased counters (‚clueless' in the best sense) would be close to zero or buy-and-hold, since you would primarily expect random results. However, with -98.3% the EWI performance 1985-

2009 was almost a total loss (Link), a theoretical EWI inverted portfolio (always do the opposite) would have yielded a profit of nearly +6000% and thus would have been one of the best ones on the planet. The benchmark Wilshire 5000 still made +857.1% in this period, so Prechter underperformed buy-and-hold by an 'otherworldly' 50,000 and still was light years behind other market gurus… how is that possible? Confidentially I was told that Prechter is somehow linked to the illuminati. There is absolutely no hard proof for that rumor, but it would explain the excellent performance until the mid-1980s and the nightmare results since. The difference is like day and night and can hardly be explained otherwise…

4. wrong epistemological assumptions: One of the fundamental flaws in the theoretical framework of Elliott waves can be found in the bottom-up approach of counting. The bottom-up approach is implicitly based on the assumptions that the whole is not more than the sum of the parts and that the future can be entirely explained by the past. Yet this is not true at all, that's why the lower wave degrees are not sufficient at all to explain the higher ones. The fundamental flaw behind the current wave theory is the materialistic-causal world view: in reality the world is not just 'pushed' by past causes, but also 'torn' by teleological (future) factors. Research projects such as the „Global Consciousness Project" (Princeton University) have proven that the future has an impact back into the past.

5. limitations of the method not taken into consideration: Every forecasting method has its inherent limitations that are seldom taken into consideration. In general, Elliott waves work best with impulse waves but much less with corrective patterns. Another EW problem hardly noticed or discussed is that in the extreme case (I am exaggerating here) you get statements like this: if level X is taken out, then expect prices to rise for 10 year - if level Y is taken out, expect prices to rise to drop for 10 years. A trader might be happy with these black-and-white calls but an investment portfolio is only adjusted gradually and needs more stable methods.

6. differences between the markets: Almost all wavers count always count with the same rules. This is total nonsense because each market has its very specific patterns (= fractals) that repeat frequently, and this factor is crucial for the success of calls.

7. fundamental analysis: In my opinion many technical analysts including wave counters are starting from the wrong side. Fundamental analysis is *always* the first analytical method as it sets the structure and the context in which sentiment, waves, cycles, and constellations should be interpreted.

In order to seize the initial example gold: gold is the only major commodity where the production peak was already achieved long ago, as production has been declining for a decade! In addition to falling supply, demand is rising sharply, especially from China. Apart from the very bullish macro factors for commodities (in particular inflation), there is no other commodity that is similarly bullish on the micro level as gold. A 100% match of micro and macro level, as is the case today in gold, is rare and the most bullish signature you can think of. At present, the capitalization of gold & gold mines is less than 2% of the total capitalization of the financial markets. At previous secular bull market tops (in the early 1980s the last time) this number was 10-20 times higher, which suggests an inflation-adjusted gain in the sector of 1000% until 2018 (conservative estimate).

Mystery 2012 (part 2): the Age of Aquarius hoax

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Some new agers are debauching in the wishful fantasy that shortly the Age of the Aquarius will start where as if by magic suddenly everything will turn out well over night. This is justified with the ingress of the sun into the sign Aquarius. The vernal equinox is the point in the sky (sidereal zodiac) where the sun is located at the beginning of spring March 20-21 (0° Aries in the tropical zodiac). Due to the 26,000 year precession cycle (Platonic year) the vernal equinox is moving by 1° in 71 years, i.e. the tropical and the sidereal zodiac are slowly diverging.

In order to keep the annoying waiting time short, the ingress into Aquarius is dated back to our time. What a pity that this is astronomically and astrologically totally wrong – but many new agers don’t care about facts:

1. The current Age of Pisces is described as dark and violent, which is not at all in accordance with astrological theory.
2. The fixed stars are moving very slowly, that’s why after some millennia the star signs (not to be confused with the zodiac signs) are aligned totally different. So dividing the 26,000 year cycle in 12 parts according to the signs as they are today is totally absurd.
3. And last but not least, the vernal equinox is still in the sign Pisces until about 2200-2600 (!). You might argue about the exact ingress, but during our lifetime it is still 100% in Pisces as the celestial map below demonstrates (Link1, Link2).