

HIGH NOON. High-Stakes Showdown.

Part I.

**By Joe Average,
January 2006.**

www.lifetoday.com.au



With “HAPPY NEW YEAR” still ringing in my ears, and feeling a tad hung-over from one glass too many of champagne, I sat at my desk gazing out over the ocean and thought... *“if the predictions of some of the more pessimistic analysts eventuate, 2006 could turn out to be anything but a happy year for many of us!”*

Some of the predictions of “doom and gloom” are so dire as to be mind numbing, while those of the dyed-in-the-wool optimists are enough to make one’s eyes glaze over in a state of euphoria. So who’s right? How will either scenario affect the average Joe in the street and his family? Is it best not to think too much about such things because it’s all too hard... and anyway... it’s all beyond our control, right? Will we always, somehow, muddle on? Or should we “hope for the best, but be prepared for the worst”? Who knows? Perhaps ignorance *is* bliss.

DOW JONES...40,000 or 4,000?

As the 20th century came to a close stock markets were suffering a severe case of “irrational exuberance”, as were more than a few investment advisors and authors.

The Dow Jones broke through 10,000 in March of 1999 inspiring David Elias to release his book “**DOW 40,000**”. Not to be outdone, Charles W. Kadlec went one better (actually he went a whole lot better) titling his book “**DOW 100,000: Fact or Fiction**”.

The Dow went on to peak at 11,723 on January 14th 2000 where upon the **stock market collapsed. Between March 2000 and October 2002 the NASDAQ crashed 78%, the S&P lost 50%, and the DJIA lost 38%**. The bears came out in force and gave the bulls a mauling. It seemed that once again a secular bear market was about to be unleashed to cleanse the markets of their malinvestments and excesses.

However, **a financial catastrophe was averted** thanks to the deft manoeuvrings of “**Maestro**” Greenspan and his Federal Reserve sidekick Bernanke (who must curse the day he ever uttered the words “printing press” and “helicopter drop...money”). They did this by flooding the globe with easy credit, slashing interest rates to historic lows, by allowing bubbles to develop in real estate and debt, through stock market intervention, and by the use of smoke and mirrors to fudge stats about the economy and inflation.

The “Great Reflation” was successful. Now, just over three years later, we see that the Dow Jones has clawed its way back from a low of 7,286 to be within striking distance of 11,000.

Question is.... Where do we go from here?



The Case for the Bulls...The Bear has been Slain.

An article entitled "**Just Ahead: Dow 40,000?**" by Jon D. Markman (who writes for CNBC on MSN Money and www.thestreet.com) 10/13/2005 tells us that...

"The professional Wall Street spin machine has kicked into overdrive in the past two weeks. ...Louis Navellier, the fund manager and newsletter publisher, is typical of the mega-bulls, advising private clients. 'If you have any cash, invest it now.....The next few weeks will be phenomenal.' Yet even these sound like doomsday scenarios compared with a cadre of analysts who argue that stocks are on the verge of a historic breakout. They say their calculations suggest the Dow Jones Industrial Average...will rocket to 20,000 to 40,000 over the next three to five years..."

(Don) Hays (of Hays Advisory) told clients to expect gains of 100%-plus in the next couple of years... 'The monetary liquidity floating around the world is so humongous'...he believes U.S. GDP is on track to double to a 7% annualized rate, while inflation will remain in a 1% to 2% range over the next decade.

Not to be outdone, (Harry) Dent (of HS Dent Forecast) told clients... 'we are very close to the last great buy opportunity ahead of the greatest five-year stock bubble in history... our long-term indicators say it is almost inevitable.'

Harry S. Dent, a graduate from Harvard Business School, and dubbed "**America's favourite optimist**" by www.amazon.com, rose to prominence in the 90's with best sellers like "Great Boom Ahead: Your Guide to Personal & Business Profit in the New Era of Prosperity" (1994), and "The Roaring 2000s: Building The Wealth And Lifestyle You Desire In The Greatest Boom In History" (1999). More recently he has published "The Next Great Bubble Boom: How to profit from the Greatest Boom in History, 2005-2009" (2004).

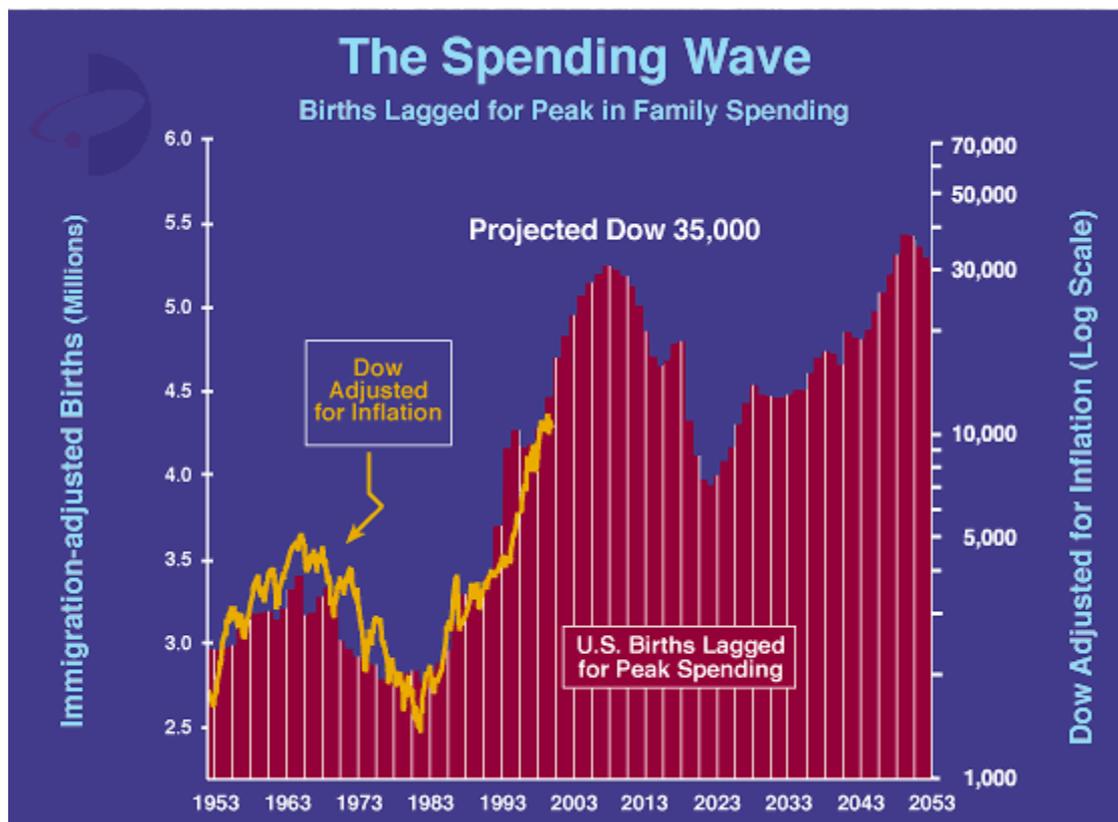
Business Week (March 27, 2000) described how ***"On the lecture circuit, Dent is a favourite of brokerage firms and mutual-fund companies which use him to fire up their sales forces and investor groups. He recently upped his lecture fee to \$50,000. "I'm trying to cut down on the speaking engagements," says Dent. "I was doing over 200 a year, and that's too much."***

Dent's predictions are based largely on two convictions... firstly, on demographic trends and the spending cycle of the massive baby-boomer generation, and secondly, on our current position in the business cycle.

Dent believes that the stock market crash and recession of 2000-2002 was ***"much more like the crash of late 1919 to 1922 that led into the Roaring Twenties boom and bull market. And that was the greatest investment opportunity of the last century"***. He expects that... ***"By the end of this decade we still see the Dow hitting 35,000 to 40,000 and the Nasdaq advancing to around 13,000 and potentially as high as 20,000.... It's clearly not too late to fully participate in the next and greatest bull market in history!"***

This **mother of all bull markets** will be propelled, Dent believes, by **productivity gains** and by the **massive spending power of the baby boomer generation** which will drive stocks to dizzy heights before peaking in 2010.

Dent supports his theory with the graph below. The chart shows the Dow Jones Industrial Average (adjusted for inflation) which is overlaid with a chart of the lagged birth index.



Graph courtesy Harry S. Dent, Jr. www.hsdent.com
 Page 21, Harry S. Dent, Jr., *The Next Great Bubble Boom, How to Profit from the Greatest Boom in History: 2005-2009*.
 Simon and Schuster, 2004, New York, NY.

Beyond 2010 Dent expects a long overdue crash in both stock markets and real estate values as the global economy crashes into a *“serious, long-term economic and stock decline that.... could rival or exceed the Great Depression in the 1930s”*.

Meanwhile, other mega-bulls have also emerged waving their “This Time It’s Different” and “New Era” banners. The likes of Gave and Kaletsky who have recently published “Our Brave New World” are certain that the old business model based on manufacturing something and selling it is dead and buried. They believe the “new business model” is driven by intellectually smart “platform companies” (largely American of course) that control the lucrative “creative world” and now allow less developed countries to control the much less profitable “industrial world”. They also believe that deficits don’t matter, and that as the developing countries get richer their massive savings (pension funds, mutual funds, etc) will flood back into the Western world which will then be kept very busy using its superior financial wisdom to look after the hard earned savings of these lesser advanced peoples.



Joe thinks... aren’t those unsophisticated peoples from the newly developing nations lucky they’ve got us to take care of their hard earned money for them! Doesn’t sound like they’re ever going to work out what to do with it themselves.

The fact that so far this foreign money has already been used to acquire ownership of over 26 per cent of U.S. assets doesn’t seem to be a reason for concern.

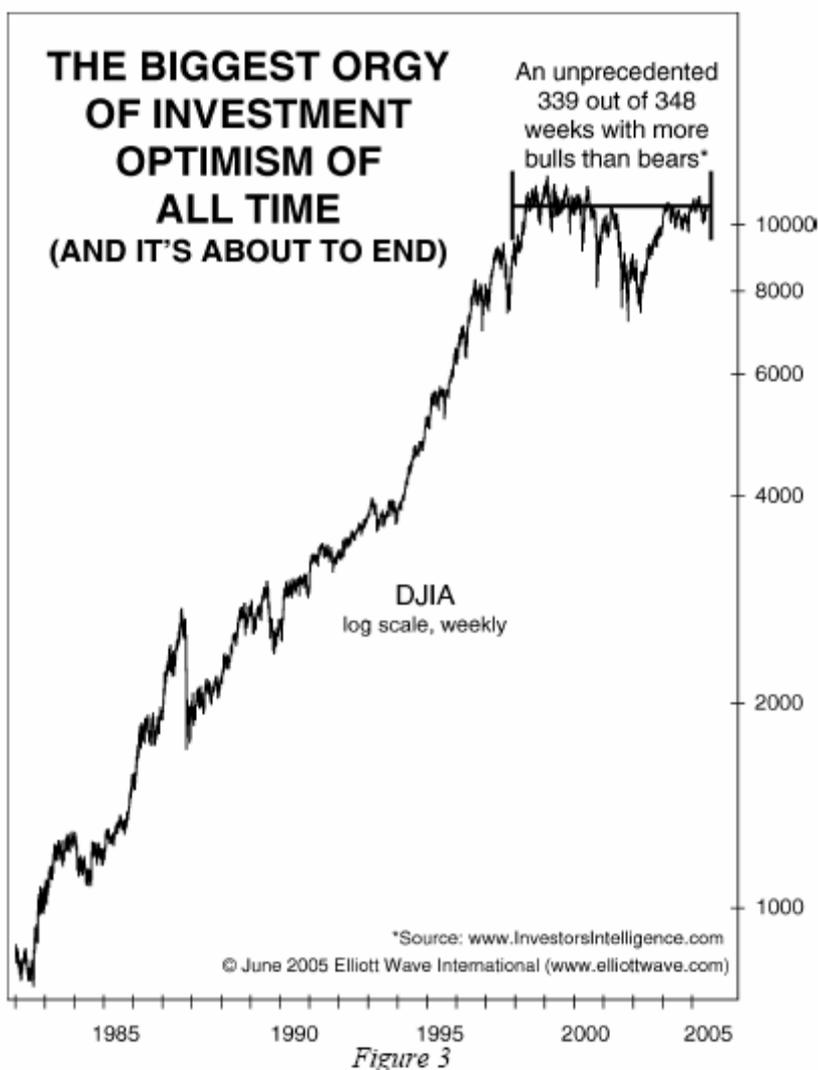
Even Dr. Marc Faber (The Gloom, Doom & Boom Report), who believes we are about to suffer a hyperinflation, warns that he also “wouldn’t rule out that the Dow Jones could rise to 36,000”. He adds that he recently felt compelled to go out and buy three books written years ago (Dow 36,000 – James Glassman 1999, Dow 40,000 – David Elias 1999, and Dow 100,000: Fact or Fiction – Charles W. Kadlec 1999) to add to his “financial curiosities” collection. Hmm....interesting!



The Case for the Bears...The Bull Trap is about to Snap Shut.

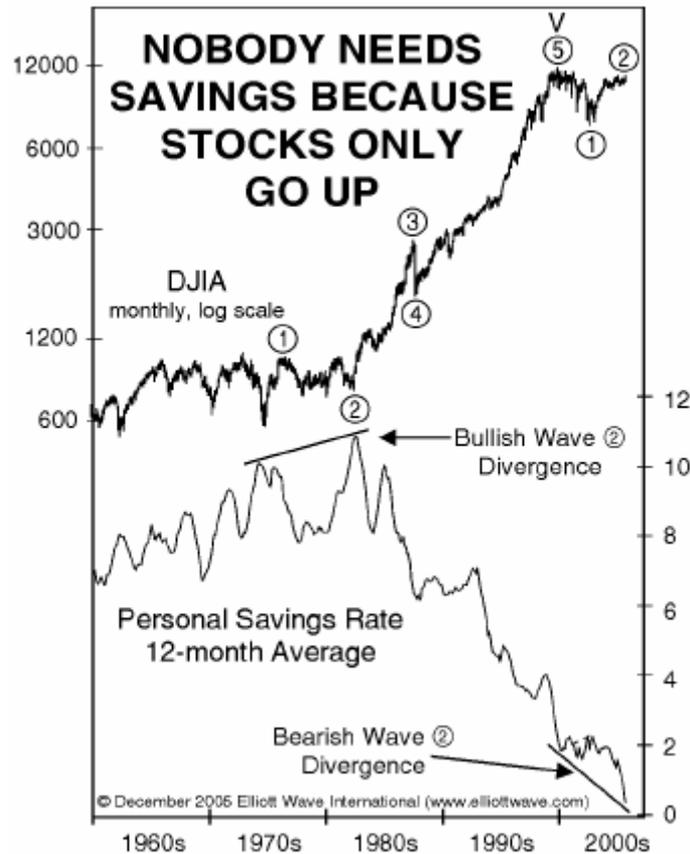
The bears, represented by the likes of Prechter, McHugh, Russell, Fleckenstein, Puplava, Wood et al **warn us that we ignore the lessons of history at our peril. They don't buy the "New Era" concept**, but warn this latest surge in the Dow is merely a Wave II rally within a secular bear market that will shortly sputter out, then turn down and nose-dive into a ferocious Wave III sell off.

Robert Prechter believes ***"Nothing like this has ever happened. It is the biggest top of all time, an amazing feat of levitation fuelled psychologically by optimism and financially by credit. This amazing streak is nearly over"***. *The Elliott Wave Theorist* – June 13, 2005.



Graph courtesy Robert Prechter's Elliott Wave International
www.elliottwave.com

The chart below shows why Prechter believes that the Dow's run will be cut short as consumers seem to have almost spent themselves to the point of exhaustion. As soon as debt-stressed consumers start tightening the purse strings, the Wave II rally will roll over and a fierce Wave III decline will assert itself.



Graph courtesy Robert Prechter's Elliott Wave Financial Forecast
December 2, 2005. www.elliottwave.com

Richard Russell, who has been publishing his financial newsletter the Dow Theory Letters since 1958 has also made an interesting prediction that he is quite famous for...**that the Dow and gold will cross at 3,000!**

Russell has stated that *"I see an extended period, maybe multi-years, in which gold will outperform the Dow. It would not shock me to see the (Dow/gold) ratio return to 1 to 1 some day"*.



Joe wonders... Who's right? Sounds like everyone kind of agrees... come 2010 at the latest the shite is going to hit the fan. Question is... is it time now to step up to the plate one last time and grab the final opportunity to double, triple or quadruple our savings? Or do we instead bunker down now before it's too late and "the Perfect Storm" (thanks Jim Puplava www.financialsense.com) strikes? The future of our families and our possible retirement dreams may hinge on the call we make. The picture should become clearer further into 2006.

Cheers, Joe (aka Dr. William R. Swagell).
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