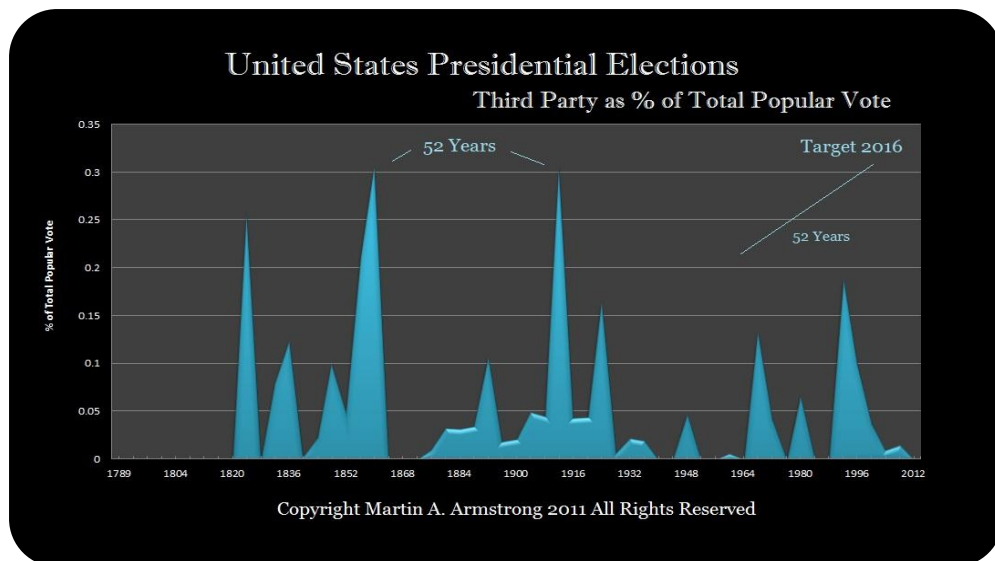


The Presidential Elections

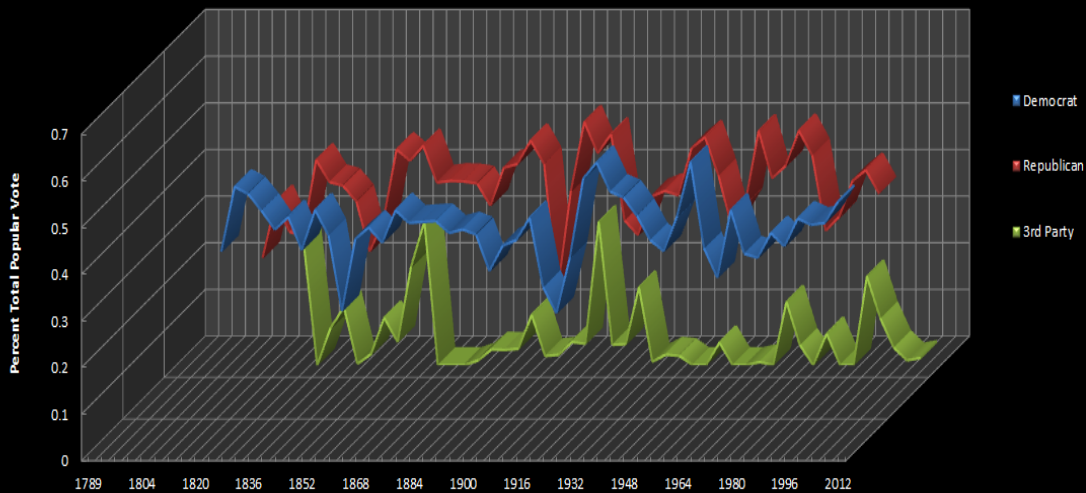


2016 – the Year from Hell A Third Party on the Horizon?

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United States Presidential Elections As % of Total Popular Vote



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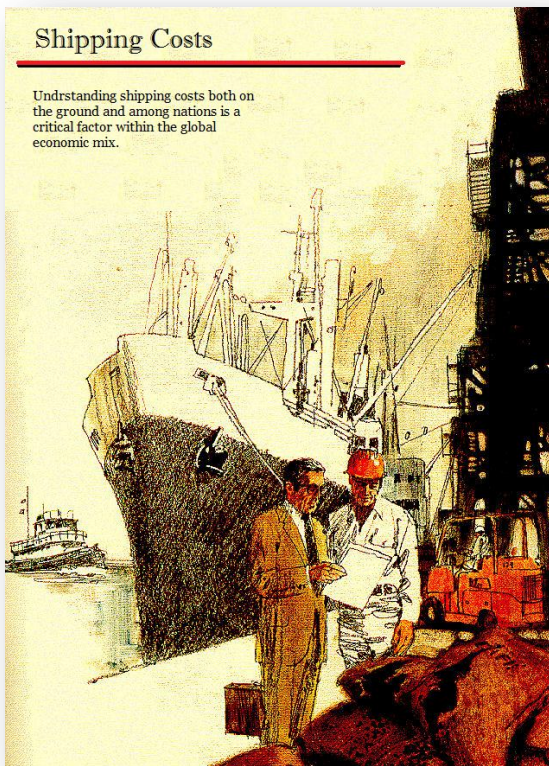
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By: Martin A. Armstrong
former Chairman of Princeton Economics International, Ltd.

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NE of the elements to making correct and practical long-term forecasting, is you must also take into account the political landscape. As a multinational corporate advisor, there was a lot more to just saying a market will go up or down. Real money needs a lot more data than just that for market forecasting alone doesn't cut it in the real world. The computer model did not merely forecast markets. It incorporated financial and natural history including weather, but also every breakdown of the economy possible including all sectors. For you see, with each boom and bust, the sector changed both domestically and then internationally. When advising multinational corporations, currency was of course essential. However, foreign corporations even operating within their own domestic world still needed raw materials and they traded in dollars. American corporations didn't have a currency risk just buying oil or some commodity. A foreign corporation had the currency risk on top of everything else.



Then there was shipping, which was also important. For example, when I was invited to China in 1997, they were tracking everything in the economy and didn't understand at the time why the same tea (*out of 249 different varieties*) sold at different price levels in different provinces. I illustrated that when plotting the prices relative to the origin of the tea production, resulted in higher prices the further one traveled from the production center. This was the shipping cost.

During the late 1970s, I became quite familiar with shipping costs. Not only did we end up with a lot of shipping companies including that of **Aristotle Sokratis Onassis** (1906–1975) into the Arab world because these companies were deeply affected by currency, but I also became involved with multinational manufacturers. In those days, it was primarily the garment industry contracting production in China. I became friends with Norman Wagman whose

family had contracted with China before the Revolution to buy bristle for paintbrushes. When Nixon opened up China, Norman was the first from the private sector to be invited. The shipping costs would at times equal or exceed the actual production costs in China. This was certainly not a factor that one could ignore as "*plus postage.*" International shipping was perhaps the first industry affected by the floating exchange rate system birth in 1971.

The last variable, but certainly not the least, was always the political risk. In the real world the politicians do not want to talk about, but the cost of government is critical. Within the United States, Delaware has more major corporations chartered there because of the best laws. Where a corporation establishes itself even within the United States is a question of competition among the states. The same trend exists internationally.

Aside from the competitiveness among governments that attracts or deters business (*i.e. jobs*), the single greatest factor is political stability. Now you might assume this has to do with coups. But there is another layer – economic stability. Creating a business plan for opening a plant anywhere in the world included long-term projections for costs and product sales. But included within those costs, was the cost of government (*taxation*). Politicians want to think they have the ultimate power of dictatorship. They enact some legislation and people will just have to pay. The United States has done far more damage to itself than Europe or most other industrialized nations in the third world. This eternal battle with Marxism going on in the USA where tax rates are like a yo-yo has driven far more industry from America shores than politicians will dare even listen to.



For decades, the people may cheer a politician when he is running for office. But the polls have consistently shown the public just has never trusted them and have been demanding for decades that some ethical standards be enforced. Good luck! Since they and judges give themselves the title of Honorable without earning it, pretty much nothing will ever change. It is simply foolish to expect otherwise. Society has to be brought to the brink of extinction to get political reform.

The good politicians who want to do the right thing are too few to matter and are ignored, like Ron Paul.

The lack of political-economic stability is the single greatest threat to the future of everyone and the politicians will not even review what they have done. They blame the greed of corporations and charge the Justice Department to hunt down anyone who found a dime outside the country and did not report it, yet the SINGLE greatest factor driving jobs from American shores is political-economic instability. For the greatest difficulty presented by American politics is the ABSENCE of consistent tax policy for this nonsense of always attacking the rich to win office is pure Marxism.

If tax rates are 20% or 30%, it really doesn't much matter. One can construct a business plan as long as there is a steady factor that is known. The consumer pays the tax anyway since prices of the end product must account for the cost of government. However, you can't build a plant on a 20% projected cost and then have it hiked to 30% because of a political whim. Would you sign a mortgage that gives the bank the right to randomly change your interest rate any time it decides it needs more cash? Politicians have to stop this Marxist shit if they ever hope to reduce structural unemployment. They are destroying the economy for why should anyone build a plant on a 20 year plan when there is no guarantee the politicians won't change their mind next month?



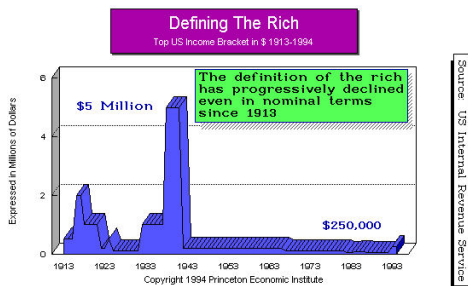
Bill Archer

Dick Army

I debated **Steve Forbes** and former New Jersey Governor **Jim Florio** at Princeton University. **Steve** took the flat tax and **Jim** took the Marxist approach of taxing the rich, and I argued in the middle for economic sanity. When **Bill Archer** was Chairman of the **House Ways & Means Committee**, he was in favor of abandoning the **Income Tax** and replacing it with the **Retail Sales Tax**. He was a former Real Estate broker, not a lawyer, and saw the world in a **practical** manner.



He was from Texas. The other Texan in Congress at the time was **Dick Army**. **Dick** was a Flat Tax guy. But politics as it really is, I found myself shuttling between the two trying to get some sort of compromise. I failed. When I would meet with **Dick Army** in his office, he had his cowboy boots on, was smoking up a storm with his feet up on his desk. Why did I fail? It wasn't that there was no common reason between both camps. After all, they were both Republicans from the same state no less. **Dick** cut to the problem. He pointed out that it would be an uphill battle to try to restore the Constitution to where it originally was – no direct taxation ending the Marxist income tax. He then pointed out that if they gutted the **Income Tax** and enacted the **Retail Sales Tax** he had no confidence that when the political wind changed and the Democrats gained power once again that they would not keep the sales tax along with the income tax.



Dick was right. I was barking up the wrong tree. There was no way to fix the system and save American jobs because there was no political stability in the nation. I gave up. My efforts to try to help the country were pointless. I could demonstrate that the Democrats in their pursuit of the “rich” kept redefining who they were. The definition remains fixed, un-indexed to inflation so eventually everyone who has a job will be considered “rich” and among the privileged class.

I was wiser, though, for the experience. They knew that Princeton Economics was the largest multinational corporate advisor in the world with real live clients. They knew we had intimate firsthand knowledge of what was driving decisions where to invest globally. Even the New York Post called us the most prestigious research firm in America and no NY Investment Bank could ever advise on global strategy limited to market trading at best. I came to understand Washington walking up and down the halls of Capitol Hill realizing that real economic reform was just hopeless. You could elect all fiscal



PEI Japan facing the Palace

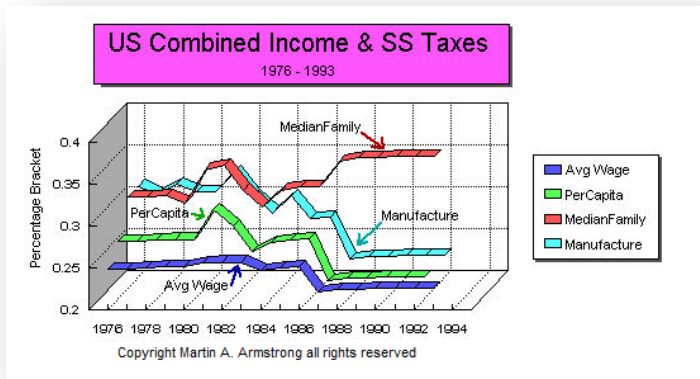
conservatives in the Senate, the House, and the White House. They could have the power to push legislation through in a heartbeat. But because there was no political stability, whatever they enacted, could be dismantled when the cyclical political winds changed direction. Solving the problems of the future just was not practical. I reached the conclusion that the best I could do, was to help clients cope with this political insanity.

Former **Prime Minister Margaret Thatcher** had told me long before there were polls confirming that **Prime Minister John Major** would lose the election. He did and **Tony Blair** became a well-known figure globally. But **Lady Thatcher** told me Major would lose simply because *"It's just time!"*



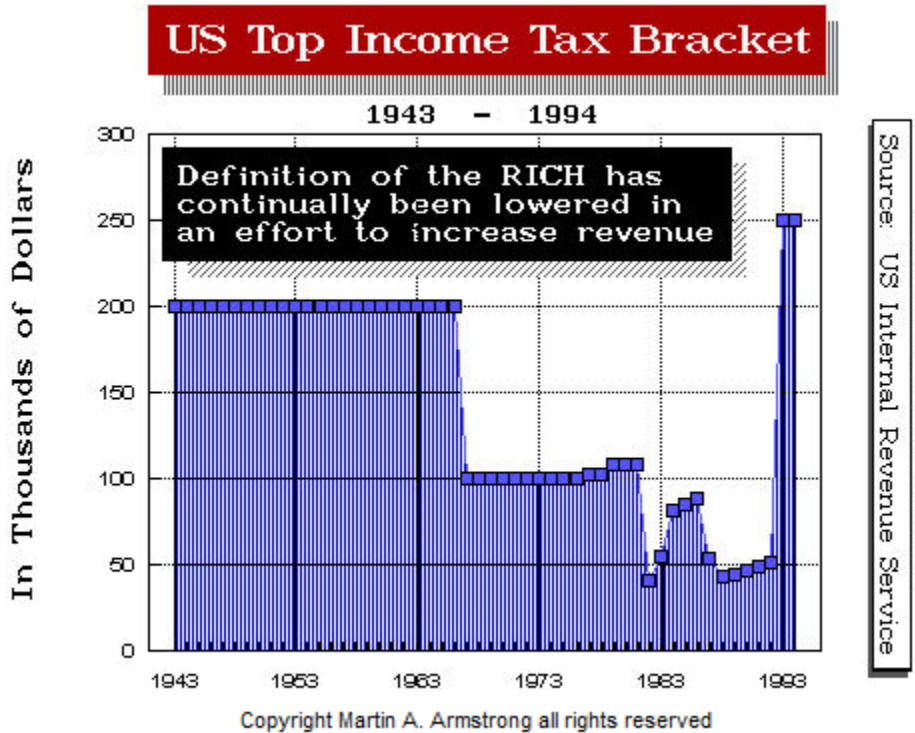
Prime Minister Margaret Thatcher

Both **Lady Thatcher** and **Dick Army** had a practical view of politics. They knew that it was cyclical and that no single party could hold power forever. This is indeed a very profound realization for it places politics in its proper context. It changes with the mood of the people and thus the political sea is an eternal one that is forever churning and quick to swallow one whole in the blink of an eye.



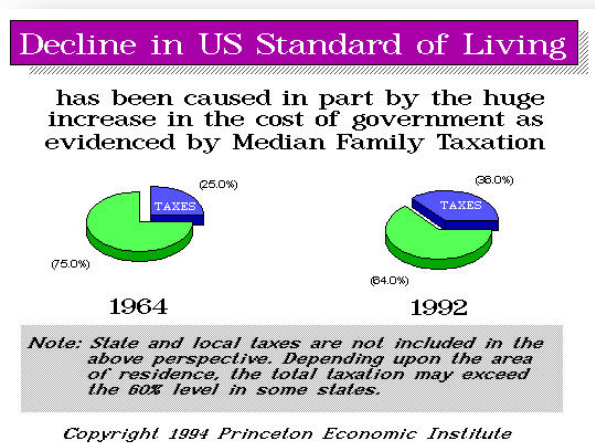
One thing nobody could come close to us was forecasting and understanding the long-term trends. By correlating everything, the computer made discoveries that blew your mind. Here is a simple chart showing the rise in taxation on the median American family. But there is something else hidden in this chart besides showing the rise in taxation for everyone. Notice the steady collapse in manufacture that peaked in 1981. What happened

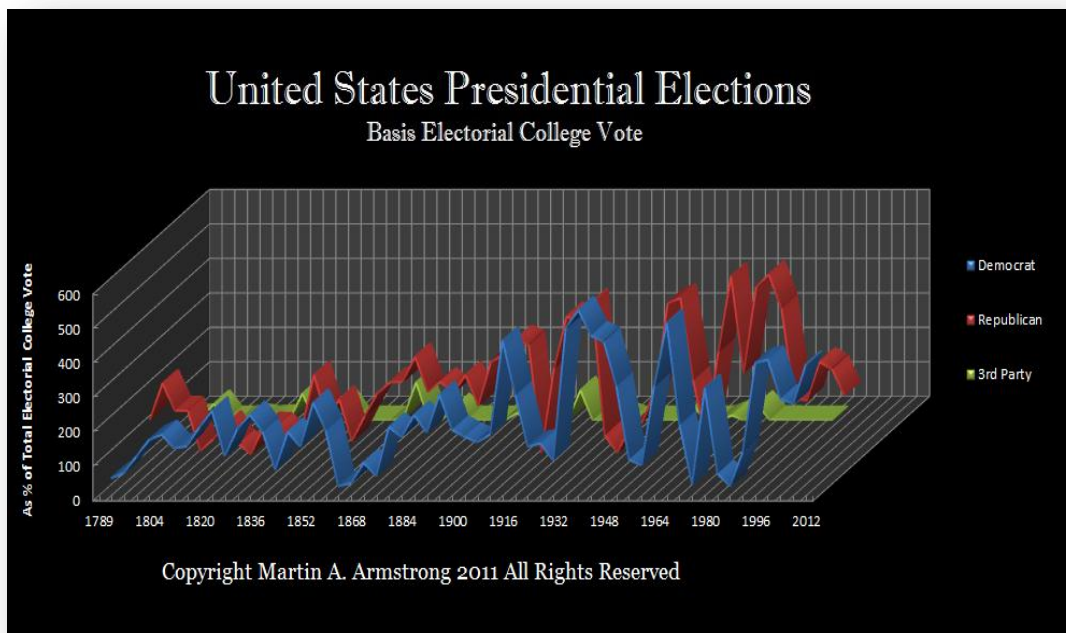
then besides the peak in the Economic Confidence Model 1981.35? This was the peak in interest rates and then the dollar rose to record highs for 1985. This deadly combination meant it was cheaper to manufacture offshore due to currency that led to the Plaza Accord in 1985, but they raised interest rates so high, business could not afford to borrow in dollars for long-term projects. They killed inflation, but real international economic growth as well in the United States. They take an action with this primitive idea that there is but only a single cause and effect. **It's dynamic stupid!** It was unstable taxes, interest rates, and the currency just to mention a few that conspired against American manufacture.



This entire Marxist affair of targeting the so called **RICH** and **CORPORATIONS** and making them pay all the taxes has always been a pipedream. It has only lowered the standard of living. In the 1960s, women worked because they wanted to. Families could exist on a single income. Today, most women do not have the luxury of staying home to raise the kids. Taxation keeps rising lowering the general standard of living not to support the people, but the growing army of government workers. Somehow making life better for the rest of the population just does not shape up in the face of reality. The definition of this hated class (**THE RICH**) is never publicly defined. Everyone assumes they are **NOT** among this fabled class. They simply assume it must be the guy next door who seems not to be struggling.

I was in Australia for an election and they wanted to impose a **LUXURY TAX** upon the rich. The slogan was they would tax Ferraris, French Wines, and Fur Coats. Every one cheered – get the bastards! When the tax was imposed, it included **ALL** electrical products. Suddenly, as always, the bulk of the tax was targeted at the average taxpayer. \$250,000 is not what it once was in 1943. As the cost of government rises and unfunded pensions loom, it comes down to an **Us v. Them** affair as is brewing in Greece.



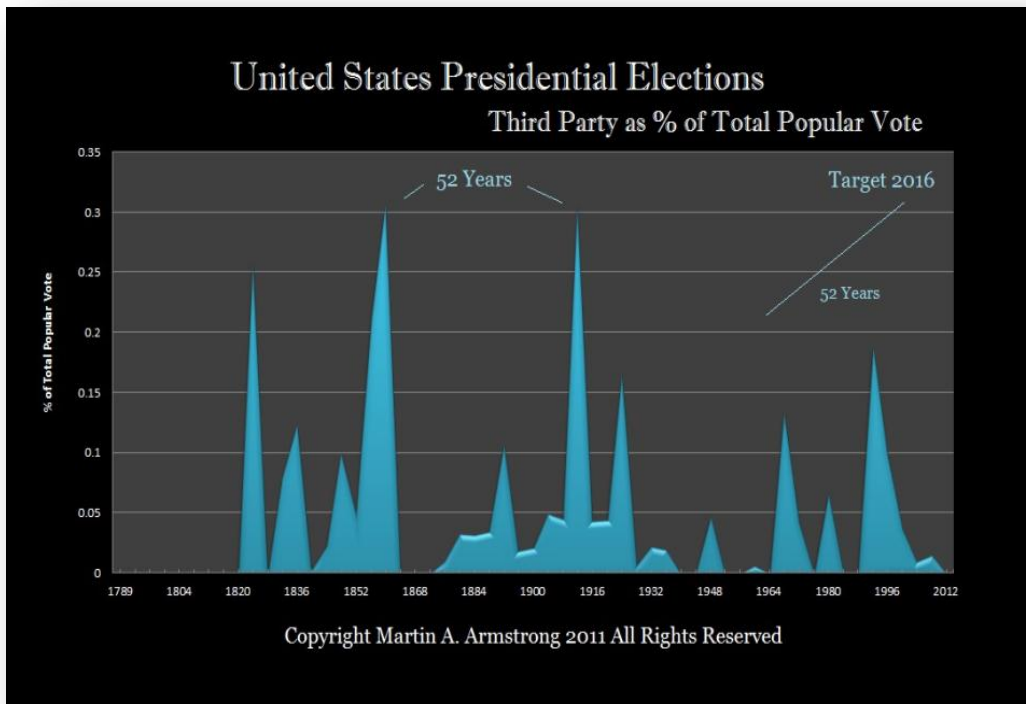


Political forecasting is thus essential to **ALL** other forecasting since it sets the tone of the economy. For example, once Iran nationalized foreign industry with the Islamic Revolution, who would dare go back for a second try? If the politicians can't be trusted – well that supersedes **ALL** other factors and the country in question becomes a **GIANT SHORT!** This is what we call **COUNTRY RISK!** Before Communism fell in China and Russia, capital was not keen on investing in such regions. As illustrated in these charts, politics is **NOT** linear. It has a cyclical beat to it like everything else around us.

While we can argue politics until the world ends, within a two party system, the eternal sea of politics will always churn back and forth. The data illustrates that only about 10% of the voters will remain independent and swing back and forth between the left and right during **NORMAL** times. It is this independent group that determines the election process. The bulk of Republicans will never vote for a Democrat and vice versa. The bulk of the people cannot be persuaded to change camps until there is a real full-blown economic implosion. This is true in all free political nations.

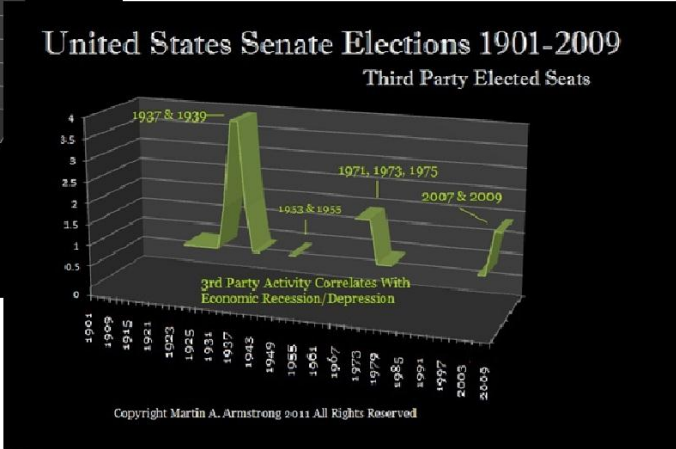
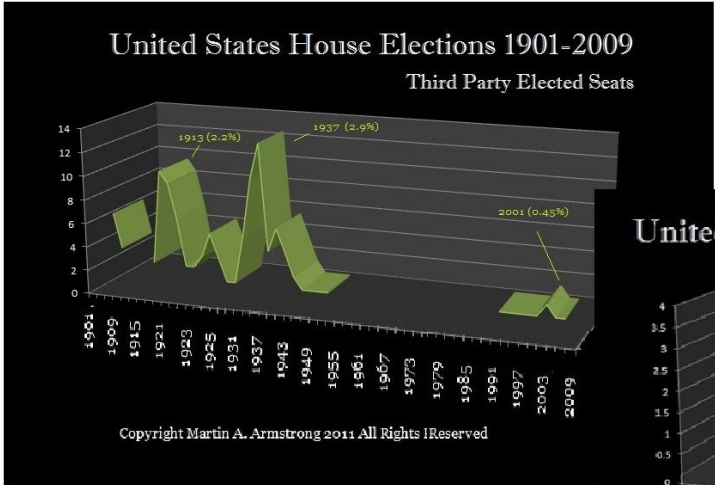
Nevertheless, hidden within this data series lays a secret kernel that is of incredible importance. It is clear that if you take the economy and trash it, you will get political change. The year 1933 saw such change with FDR coming to power in the USA, Hitler in Germany and Mao in China. How that change will manifest is not that difficult to forecast. Whoever is in power just gets thrown out.

In terms of markets, it is the giant wave that swamps everything. In politics, it becomes the Revolution Wave that tears everything from limb to limb. At some point in time, that small segment of about 10% of the voters who remain independent swinging back and forth between left and right, swell in number. Once this number exceeds 42% of the total population, major political change takes place that sweeps the national scene.

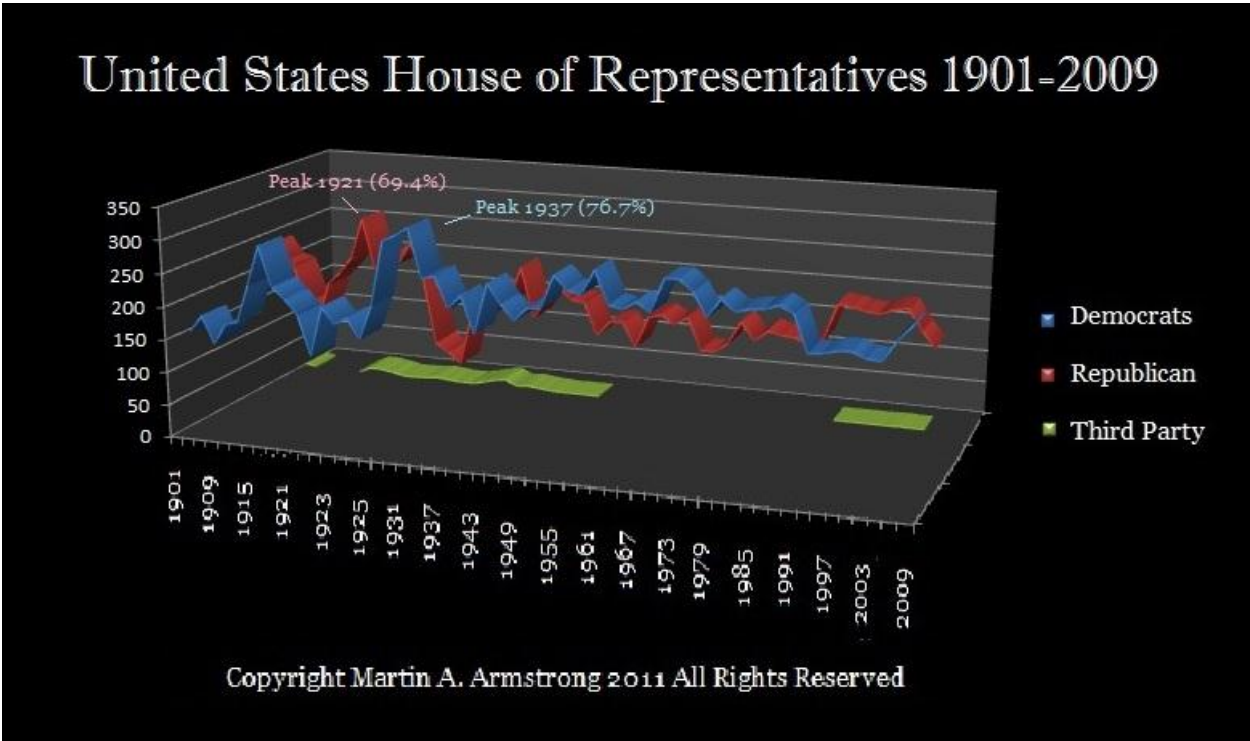


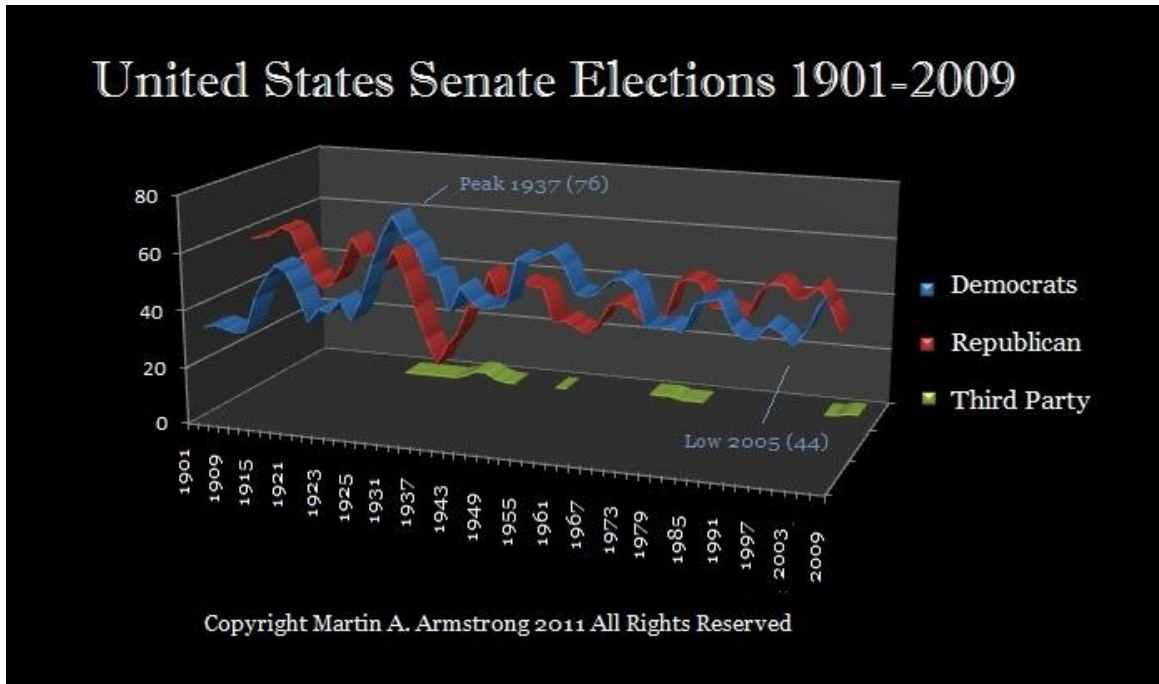
Illustrated here is a rarely observed factor – the third party element. There is a very dominant 51.6 year **Economic Confidence Model** frequency within politics as well as currency. The major turning points were 1860, 1912, 1964, and still ahead, 2016. The first target produced the Civil War. The second marked the peak in Britain as the financial capital of the world followed by the start of World War I shortly thereafter. The year 1964 had been the last year silver appeared in coinage just after the assassination of JFK. This was the beginning of the end of the Bretton Woods fixed exchange rate gold standard. These peaks in Third Party votes reached well above 20% of the population stretching to 30%. What is incredible about this data is that generally only 10% of the swing vote determines the victor. This illustrated in a prelude to revolution, this will spike to the 30% area during political disturbances. The target year 2016 has not looked good for a long time. It appears to be the fifth such event that is unlikely to mean revolution, but it will signal significant change.

The previous dates, 1809 and 1758 also marked important changes in the political wind whereas the late was the revolutionary sixth wave. In 1808, America banned the importation of slaves following the British ban on slave trade in 1807. Previously, 1758 began the rising sentiments of independence in the American colonies. In February 1761, **James Otis, Jr.** (1725–1783) argued brilliantly against the **Writs of Assistance** that were authorized in 1660, but became an instrument of tyranny in 1758 in the American colonies as a means to raise taxes. For nearly five hours, **Otis** made a brilliant oration in court against the writs, but he lost the case for what judge will ever rule against his master. **John Adams** later wrote that "**the child independence was then and there born, [for] every man of an immense crowded audience appeared to me to go away as I did, ready to take arms against writs of assistance.**" This spirit of resistance appears to rise roughly 51.6 years, albeit at different intensity.



Third Party votes have impacted the Senate more so than the House. Nevertheless, in the Senate we have **Ron Paul** who everyone knows and speaks a lot of common sense. We can see that there is a rise in Third Party activity and by 2016, we should see a sharp return to the same levels of political instability that we saw going into both the Great Depression and the Civil War. As politicians cut all the promises they made for so long, a lot of people are going to get really upset. This will be reflected in a rise of Third Party activity that once captured 30% of the total vote!





The raw numbers show interesting trends. The Democrats on an Electoral College basis reached 523 votes in 1936. The Republicans reached 520 with Nixon in 1971 and 525 in 1984. The Democrats fell for 12 election cycles (48 years) before making a rally with Clinton reaching 370 in 1992 and 379 in 1996. Obama reached only 365 so he did not restore a bullish trend, but simply made a bear market rally. Therefore, even with Obama being black, the Democrats were unable to beat that achieved by Bill Clinton. The numbers show that the days of Marxism are numbered. But the days of the right wing religious followers do not look so good either. What is percolating behind the scenes appears to be a political change toward greater independence. The Revolution Cycle is likely to hit in 2068.

The Democrats have promised the moon, but funded nothing. Their constant attack on the class structure and corporations has done far more harm than good. They have chased jobs from America and no matter what you show them, they will not change their ways. The Republicans have also lost their way and desire to be the world policeman of imperialism forcing American doctrine upon the rest of the world, but we ran out of the bankroll to support that agenda. The Republicans are behavior Marxists and demand to control what people think and do. They have destroyed the **LIBERTY** that was supposed to be the number one objective of the constitution and transformed the USA into the biggest prison camp the world has ever seen. The US imprisons more people than Europe, Russia, and China combined. We prosecute everything and aggressively seek tax prosecution cases. They forgot what made Reagan popular – **FISCAL CONSERVATISM**, not religious fanaticism. As his son said at his funeral, his father never imposed his religion upon anyone else.

The future appears one of rising political discontent. A return to fiscal conservatism and the right wing has become as nuts as the left. Americans will rise once again to a Third Party. To the shock of most, this will exceed the old highs of 30% and 2016 looks like the **YEAR FROM HELL!**