Sand Spring Advisors LLC

Inflection Dates

by,

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As I re-read my March article in light of recent equity market resilience, all I can say is: *yuck*. All the ingredients for a crash seemed to be present in my mind as of mid-March 2011 – elements that were geo-political, geo-physical, and geo-financial -- but then nothing effectively happened. Global equity markets have instead shown an amazing ability to shrug off bad news.

When Standard & Poors then recently put the debt of the United States on credit watch for a possible downgrade, and U.S. bonds actually rallied on that day while stocks barely declined, I had an epiphany moment of thought: What if we are in the midst of a melt-up in asset prices that the Fed can't stop? One 25 bp hike might scare a few for a moment, but hell, rates would still be so low in absolute terms that people might still buy hard assets; the next 50 bp increase would again be scary, but the Fed would still be well behind the curve from achieving a normalized level of interest rates.

In other words, is it possible that Bernanke loses control of the bubble that he has created and simply can't stop it? Stocks and commodities go up and up and up until Bernanke effectively has to destroy the U.S. bond market (a la Volcker circa May 1981) to bring markets back into balance. Bernanke still comes to rue the day that he said on *60 Minutes* that he could stop inflation "on a dime if he wants to", because he can't. Asset inflation takes on a life of its own that is almost unstoppable. It only ends when the common man on the street – those without substantive assets – gets so pissed off at high asset prices and inflation, that there is something akin to class warfare and/or a socio-economic revolt.

A month ago I would have argued that such a path was highly unlikely given the starting fragility of global over-indebtedness. It simply seemed implausible to me that an economic system that was starting so unbalanced could migrate to be even more unbalanced.

Now, I am less sure.

Re-reading my February 2001 article *Measuring Financial Time: The Magic of Pi*, the current period starting in late 2008 was a time that I originally predicted for strong asset performance in nominal terms offset by high inflation….a so-called Type 1 period of combined high earnings but with concomitant currency debasement. This is more or less what the markets have actually served up since the fall of 2008. I more recently resisted embracing this notion because I expected a shorter-term <u>deflationary entropic moment first into mid-June 2011</u>. While it remains possible that a May-June market swan dive still transpires, the clock is ticking against me in this latter view. I have to start to consider other longer-term roadmaps.

As I embark on the quest to get back "on-sides" after a difficult period of failed prognostications, there are two important date clusters forthcoming.

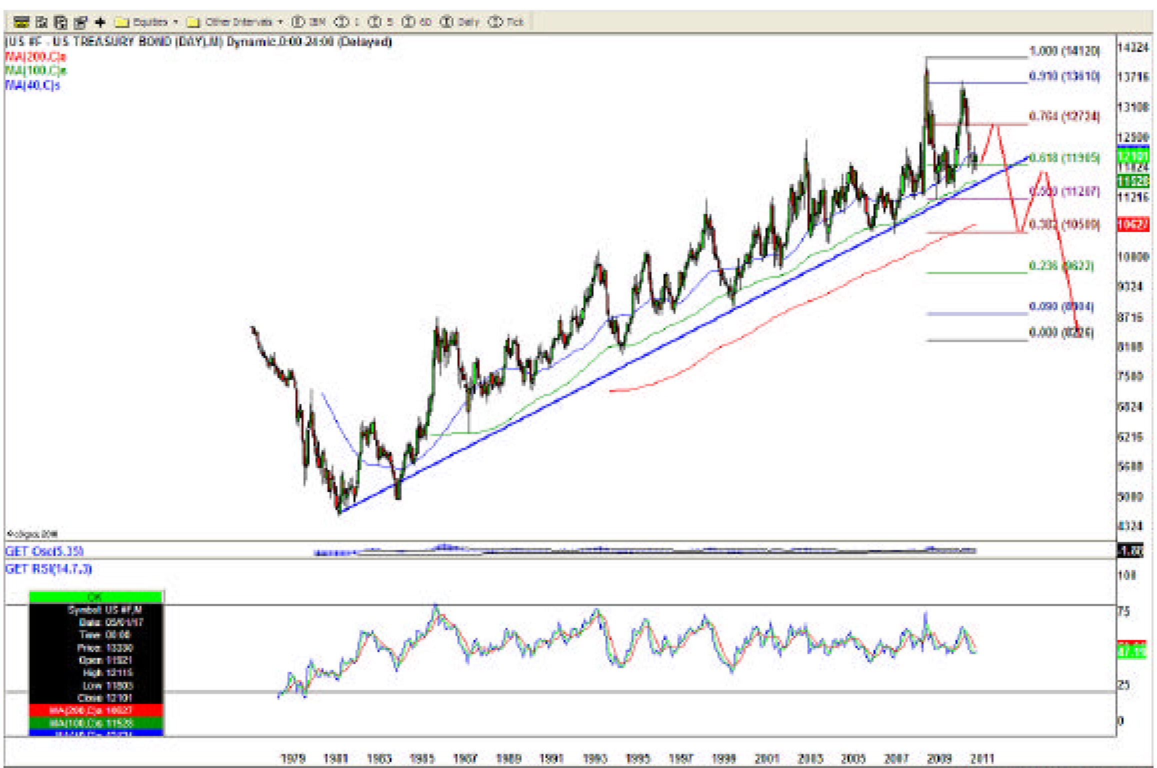
May 17, 2011 relates on a pi cycle back to the October 16, 2007 high in the Shanghai A Share Index. It is also a date that falls on a pi cycle continuum of dates from the July 20, 1999 gold market low. One day short of this period is May 16, 2011 which is exactly 3141 days (pi * 1000) from the October 2002 Nasdaq market low. May 16, 2011 also falls on a continuum of pi cycle dates from the WTC attack of 9/11/01. **<u>Expect entropic market reversals of some nature during this May 16-17, 2011 window of time.</u>** Given the past market involvements related to this date, highs around May 16-17 in the Shanghai & Nasdaq market could easily transpire together with a gold market high.

Maybe I will finally then get my much-anticipated short-term reversal of sentiment and we could witness a swift one month correction into our second June 13, 2011 pi date which relates back to the Crash of 1987, and is exactly 1.5 *pi * 1000 days removed from the PEI cycle high of July 20, 1998.

<u>If such a sudden reversal were to transpire, then within this mid-June window, equities could then offer up a huge buying opportunity for the next 4.3-years.</u>

Alternatively, let me suggest that one of these two cycles dates will simply represent a period when Ben Bernanke's grand experiment with the economy starts to go awry with unintended consequences. Could strength in the gold/energy market finally unnerve the bond market around May 16-17th? Could a muni-bond crisis suddenly transpire during this period?

I don't know the immediate answers to these questions. Maybe there is one more small bounce to bonds before the day of reckoning for that market starts, or maybe not. Maybe we just fall off the edge of the trend lines depicted in the charts below. But longer-term both the continuous U.S. bond futures chart and the TLT bond ETF certainly have fractal expansion possibilities to the downside.



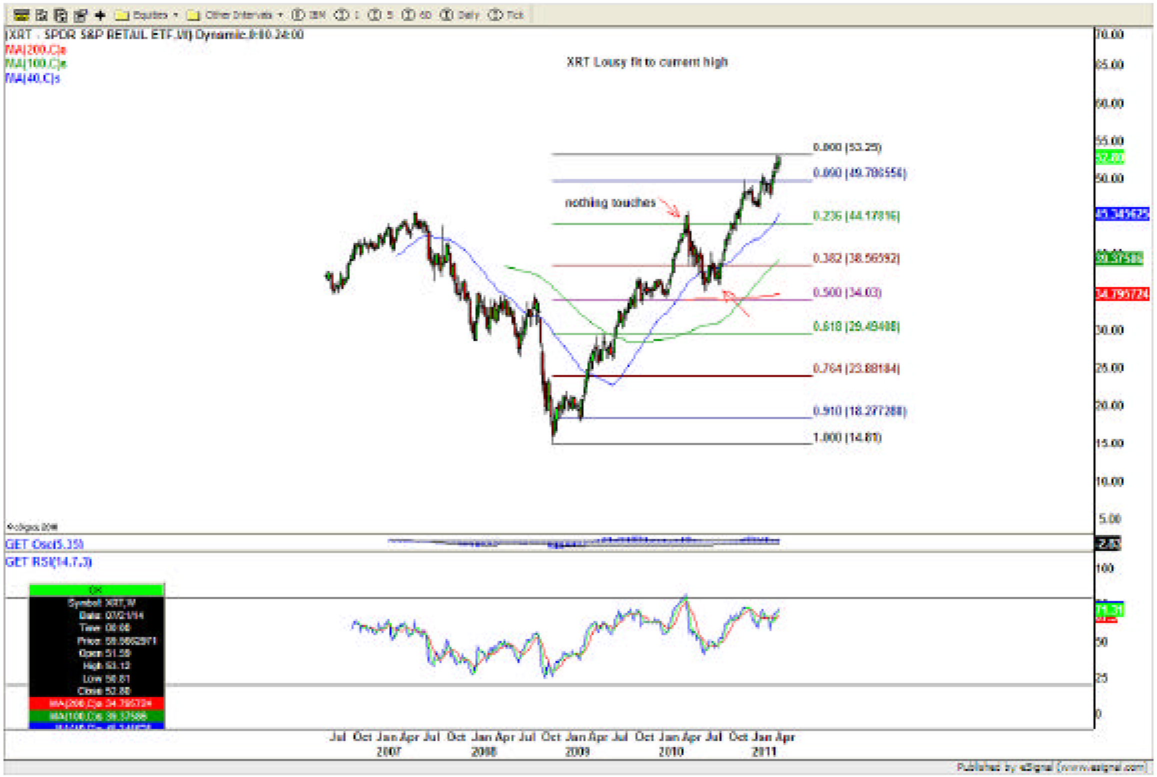
Or more likely, will something transpire in Europe regarding their sovereign debt situation that will be dramatic between May 16-17 and June 13, 2011? If so, one might want to be attentive to a low in the UUP U.S. dollar ETF somewhere around 20.70.

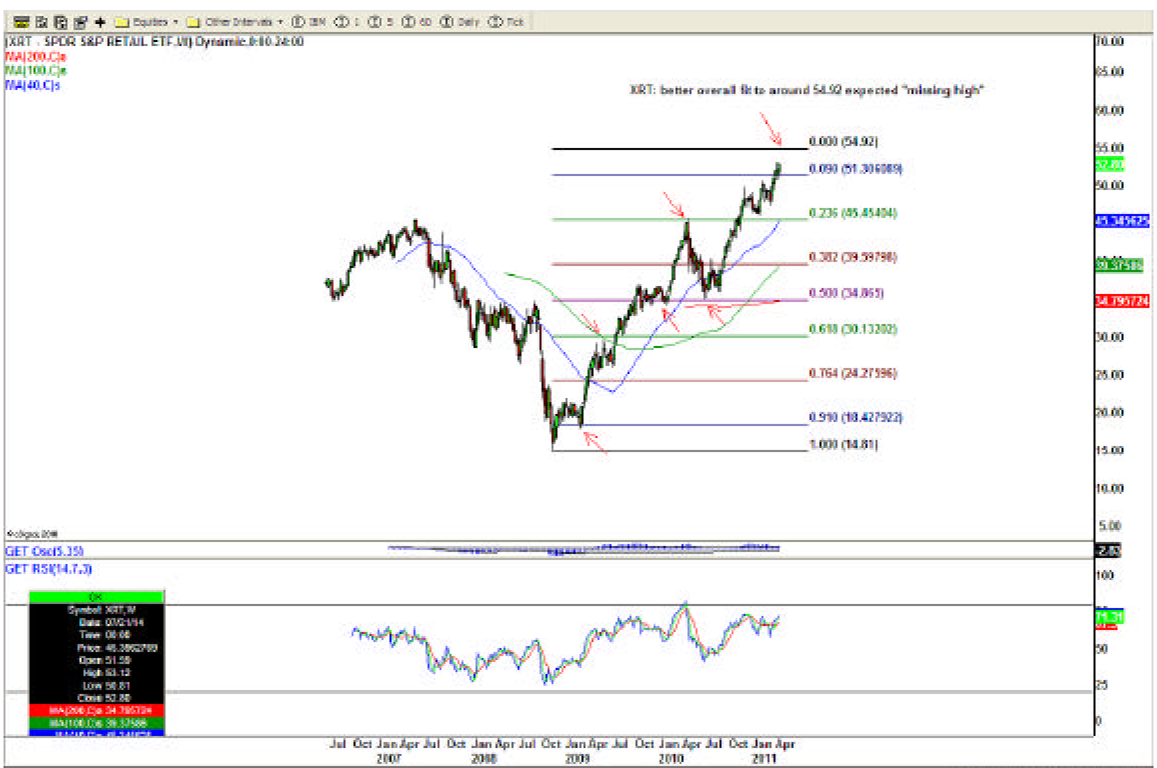
<u>I honestly don't know what extremes to expect at this juncture, but I do expect this to be more obvious as these pi date windows are immediately upon us.</u>

The proper positioning at present is therefore to be lightly invested but ready to contra-trade market extremes on May 16-17th and then contra-trade them again on June 13th, 2011.

What follows are some added potential Fibonacci clues to this important period.

First, the current XRT price chart has an uncomfortable Fibonacci rhythm to the recent high. It will “fit” much better for a potential retracement up at 54.92.





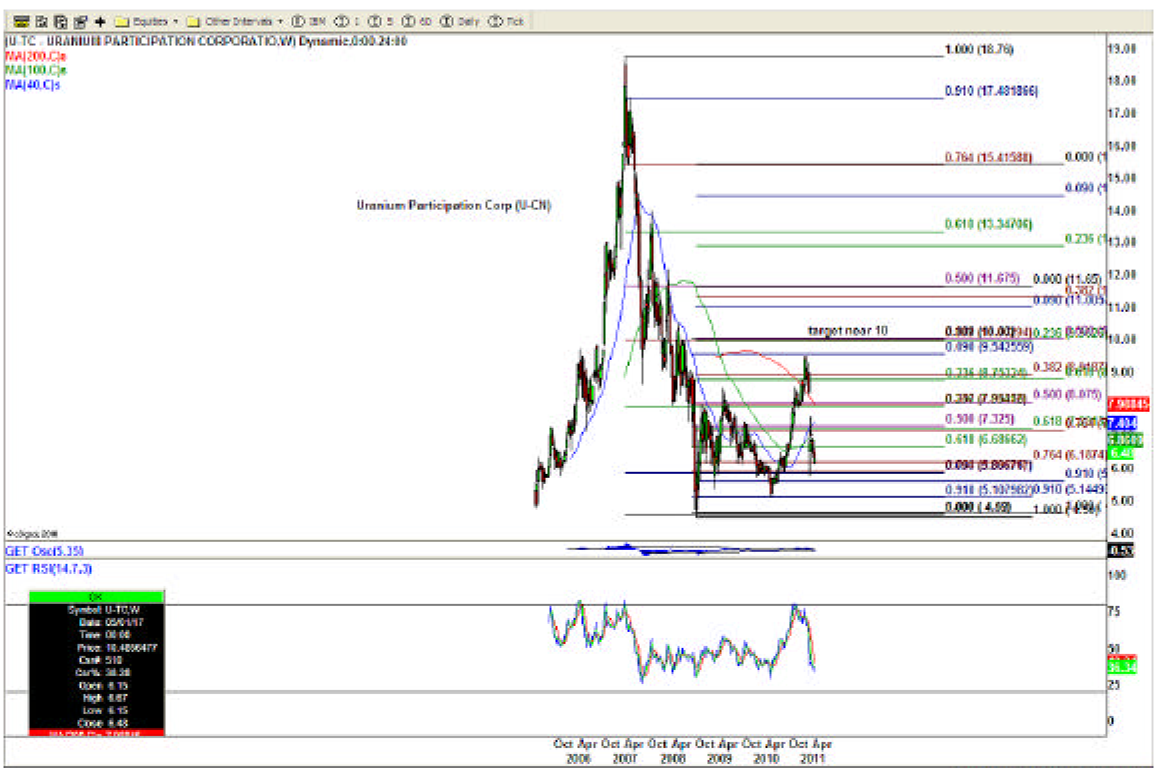
Thus, a peak in the XRT near 54.92 into either of our forthcoming pi date windows would be a lovely combined “time-price” set-up. Patience getting there is required first, though. I have certainly been premature for my distaste of both the XRT and XLY ETFs in the past.

Second, even if gold longer-term goes on to higher highs, in the short-term this metal is very overbought. A shake-out move should transpire soon. Maybe this will be between May 16, 2011 and June 13, 2011 in a swift fashion. Double fractal Fibonacci and longer-term moving average support resides just above $1000 per ounce. Will they eventually call this period “John Paulson’s Moment of Come-Uppance?” Maybe.

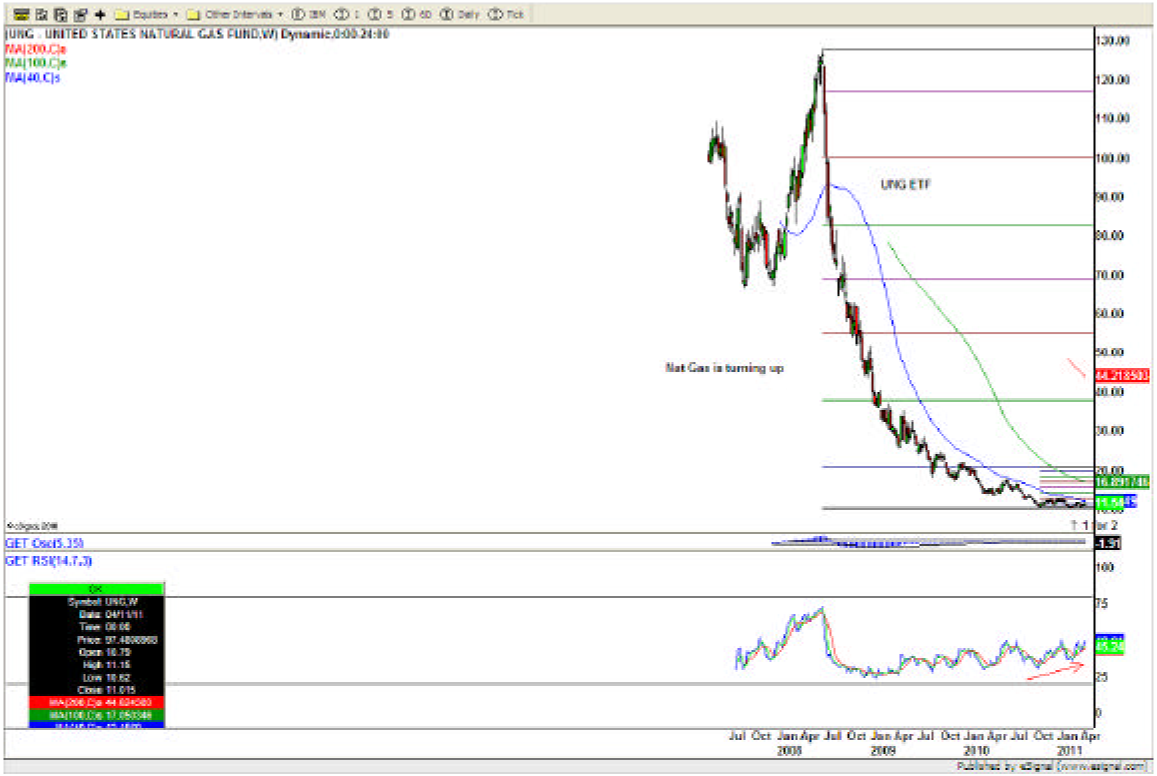
On a completely different note, some investors may still feel like they need to be long something….some hard asset…and if not gold, then what might fill this need?

We have commented positively within these pages in the past about the stock of Uranium One (UUU-CN), but sold it awhile back when it ran above short-term targets. The Fukishima disaster in Japan has sent this stock temporarily back down. I like UUU-CN longer term for the upside targets depicted in the chart below. Nuclear energy is not going away.

Similarly, U-CN, the Uranium Participation Corp, has a chart pattern pointed to at least 10 with time.



Even with costly “monthly contango roll costs” imbedded, I also believe that the UNG ETF that tracks natural gas is finally turning up. Look for almost a double from current prices of 11.52 to an eventual 20.85 fractal target zone.



These last three suggestions obviously have little to do with our other cycle thoughts. They are simply longer-term investment thoughts based on pure Fibonacci fractals and common sense.

Common sense is something sorely lacking in today’s investment climate. Maybe that is why 2010-2011 has been such a tough time for a market analyst such as myself.

What happens into mid-June should make it easier to forecast the next several years.

Send us your comments at information@Sandspring.com.

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