Sand Spring Advisors LLC

Pi Cycle Swing Date

by,

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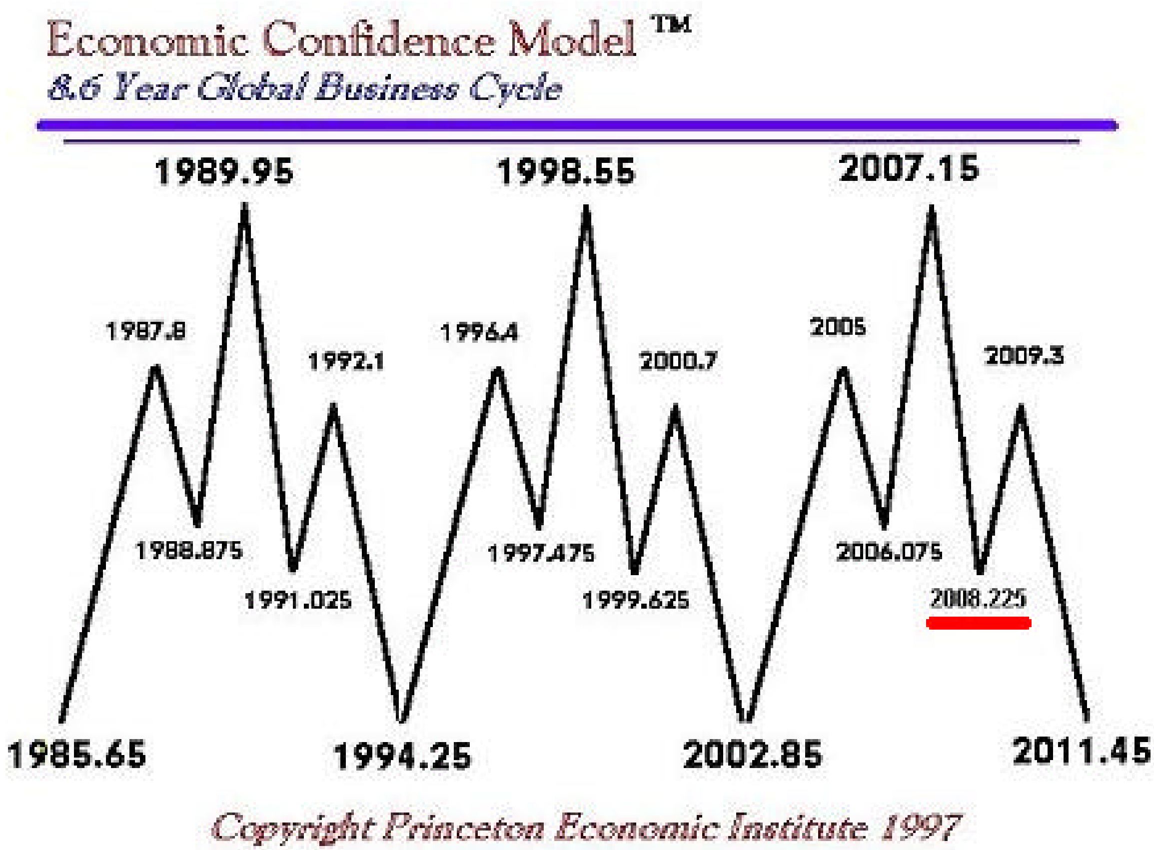
There can only be one real focus this month: the forthcoming March 22, 2008 pi cycle date that finds itself within the original 1997 Princeton Economic Institute chart below denoted as 2008.225 (underlined by us in red).



What exactly is this chart, and how does this pi cycle work? Why is it so potentially important?

For readers who do not know this story, it was the belief of Martin Armstrong, the brilliant founder of the Princeton Economic Institute (subsequently defamed by an overly aggressive U.S. government alleging unproven money management malfeasance), that there were various hard-coded cycles imbedded in financial markets related to pi. More specifically, 3,141 days or pi * 1000 equals 8.6-years, and this was one cycle to which he was most attentive.

So to start -- each of the major highs on the chart above is exactly 3,141 days (8.6-years) apart, and amazingly enough, each has marked relatively precisely a major turning point in global financial markets. Remember that the 1998 and 2007 dates both were published well in advance in his 1997 chart.

> - 1989.95 = December 13, 1989 – This was a scant few days short of the all-time high in the Japanese Nikkei. Martin Armstrong specifically predicted a Nikkei top into this time window, and it was this call that initially made him quite famous in Japan – particularly after the prognostication worked so well.
>
> - 1998.55 = July 20, 1998 -- This was the exact high to the day in global financial markets before the LTCM and Russian Ruble crisis hit. The CIA subsequently contacted Martin Armstrong in September 1998 to investigate how he had predicted this date so precisely. As a trading assistant to Mr. Armstrong at the time, I set up the meeting between them.
>
> - 2007.15 = February 24, 2007 – This date was the historic "tights" in U.S. credit spreads before the current credit/leverage crisis began. (See our February 23, 2007 article entitled *"Marty's Date"* for more details).

The "high-to-high-to-high" rhythm is clear here.

If one takes the 8.6-year rhythm back further in time, it also continues. 3141-days prior to Dec 13, 1989 was May 8, 1981 – a high in U.S. and European financial markets before Paul Volcker really put the "pedal to the metal" to raise rates in the U.S. (driving the DJIA from above 1000 to below 780 in the process), and a date just before France embraced socialism with the May 10, 1981 election of Francois Mitterrand (starting a period of European currency weakness and U.S. dollar strength).

Another 3141 days earlier was October 1, 1972 – a date when the Nixon presidency was struggling behind the scenes to contain the Watergate story, and just a few weeks before President Nixon's "Saturday Night Massacre" dismissal of special prosecutor Archibald Cox. As Watergate concerns subsequently worsened, together with stagflationary pressures across the economy, equity markets left a major high in early January 1973. The 1973-1974 bear market in equities was a horrific one.

Thus, the high-to-high pi cycle has not always been as precise as it was on July 20, 1998 or February 24, 2007, but it <u>has</u> always occurred <u>near</u> a major high and a subsequent reversal lower in market sentiment.

Moving on to the major 8.6-year cycles marked as "lows" on the chart above , we see something similar, but in a slightly different way. Each of these latter dates represented a point where stretched monetary policy was in the process of being changed by Government:

> - 1985.65 = August 25, 1985 – High in the U.S. dollar, with G-5 Plaza Accord to follow a few weeks later. Forcing the dollar lower set off a "happy" period for U.S. equities under the Reagan administration.
>
> - 1994.25 = April 1, 1994 – Period when Alan Greenspan was aggressively tightening interest rates, leading to a dour year for global fixed income markets in

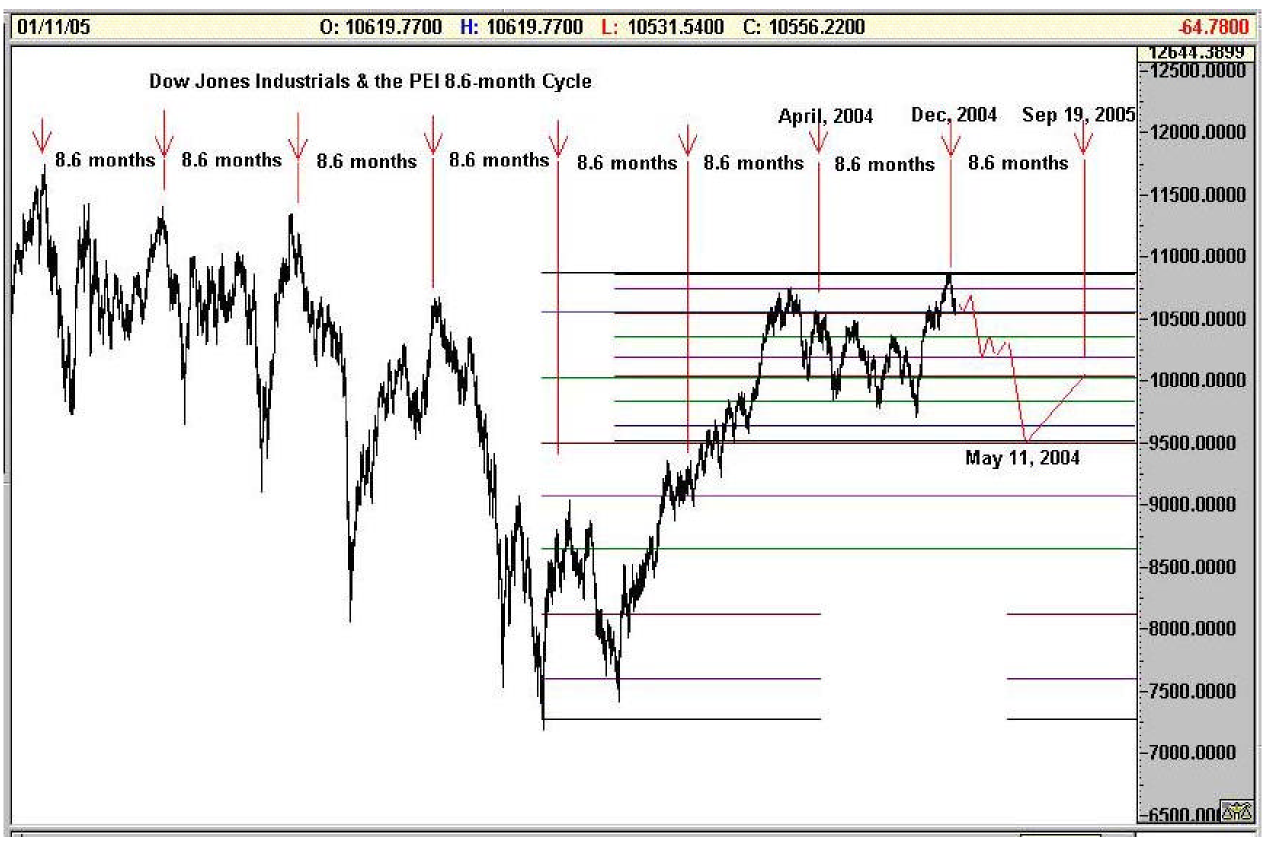
1994. But amidst the fixed income gloom, equity markets actually bottomed exactly on the April 1, 1994 pi cycle date.

- 2002.85 = Nov. 6/7, 2002 – Period of massive Government injection of liquidity via monetary policy of 1% interest rates and stimulative tax code changes. The 2000-2002 tech crash ends, but a new housing bubble begins. Actual market low was a double one in October 2002 with a retest into March 2003.

And what happened on all the intermediate "non-major" cycle dates shown on the PEI chart?

As longtime readers of Sandspring.com know, Armstrong further divided his 8.6-year pi cycle into twelve 8.6-month cycles. When I worked for him, I remember him saying that he expected some overly-stretched theme within the markets to shift on or around these dates "almost as if the human psyche gets bored with one theme, and needs to move on to a new one." He believed that this 8.6-month cycle would generally be a "mini" high-to-high type of rhythm within the bigger 8.6-year cycle high-to-high rhythm. In order to be a high-to-high rhythm, Armstrong also posited that mini-cycle lows should fall in the middle of each 8.6 month cycle – or approximately every 4.3 months. Thus he really ended up with 24 cycle dates of some potential importance across a full 8.6-year pi cycle rhythm.

As one example of this 8.6-month high-to-high rhythm at work, the reprinted chart below (from our January 2005 article *Academia Slowly Catching Up to Fractal Reality*) shows 8.6-month rhythms at work in the way the DJIA topped between 2000-2004.

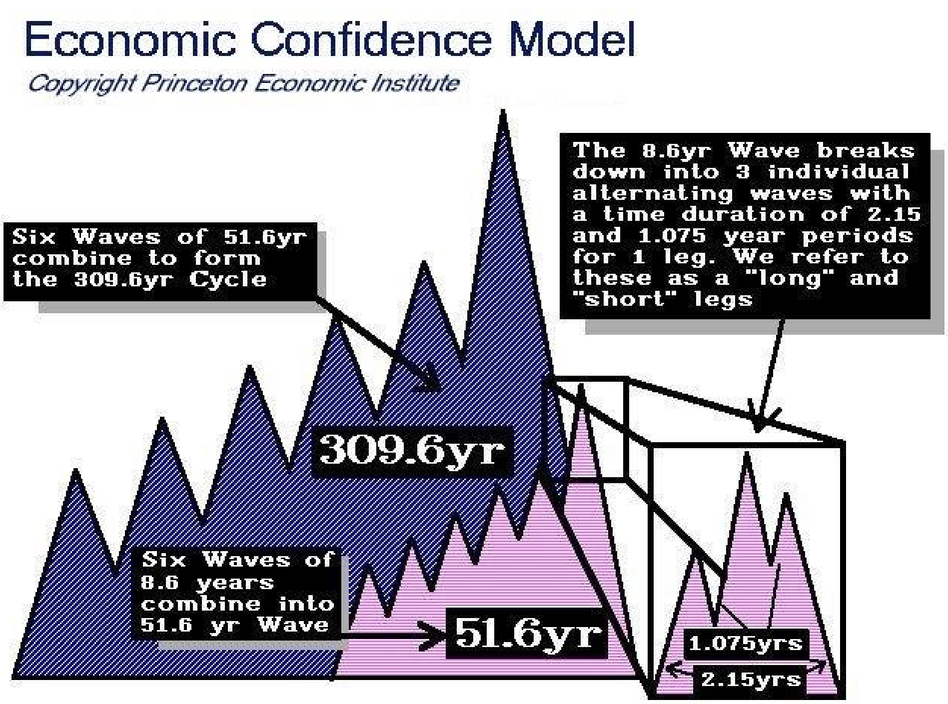


But Armstrong also broke things down in a somewhat more fractal Elliott Wave-type of way. He specifically believed that these 24 mini-4.3 month cycles might subdivide the 8.6-year pi cycle as follows:

2.15 years – long leg – composed of six 4.3-month mini cycles
1.075 years – short leg – composed of three 4.3-month mini cycles
2.15 years – long leg – composed of six 4.3-month mini cycles
1.075 years – short leg – composed of three 4.3-month mini cycles
2.15 years – long leg – composed of six 4.3-month mini cycles

= 8.6 years in total; 24 4.3-month mini-cycles in total

In Elliott terms, one can easily imagine the "long legs" being the equivalent of impulsive waves 1, 3, and 5, while Armstrong's "short legs" would be the equivalent of Elliott Wave corrective wave 2 and 4 type of periods. The biggest problem however is that using this approach, an added level of complexity has been added, and it is somewhat harder to ever predict whether one of these cycle dates will be a high or a low. The chart below is the only remaining graphic from the Princeton Economic Institute's fractal subdivision of its cycles. The 51.6-year and 309.6-year long-term cycles are a discussion for another day, beyond the scope of our analysis today.



Out of a potential 24 cycle dates per 8.6-year cycle, these special "fractal subdivision" dates are the ones shown as minor cycle turns within the PEI chart on page 1 of this article, and some (but not all) of these dates have also been of great significance.

Of some note, 1987.8 (October 19, 1987) marked the very day of the 1987 equity market crash, but was originally marked on Armstrong's chart as a high, not a low. 1988.875 (Nov 14, 1988) was not a date of huge significance, but it was the last post-1987 "head-fake" break lower in equities before the equity bull market reasserted itself to the upside in earnest.

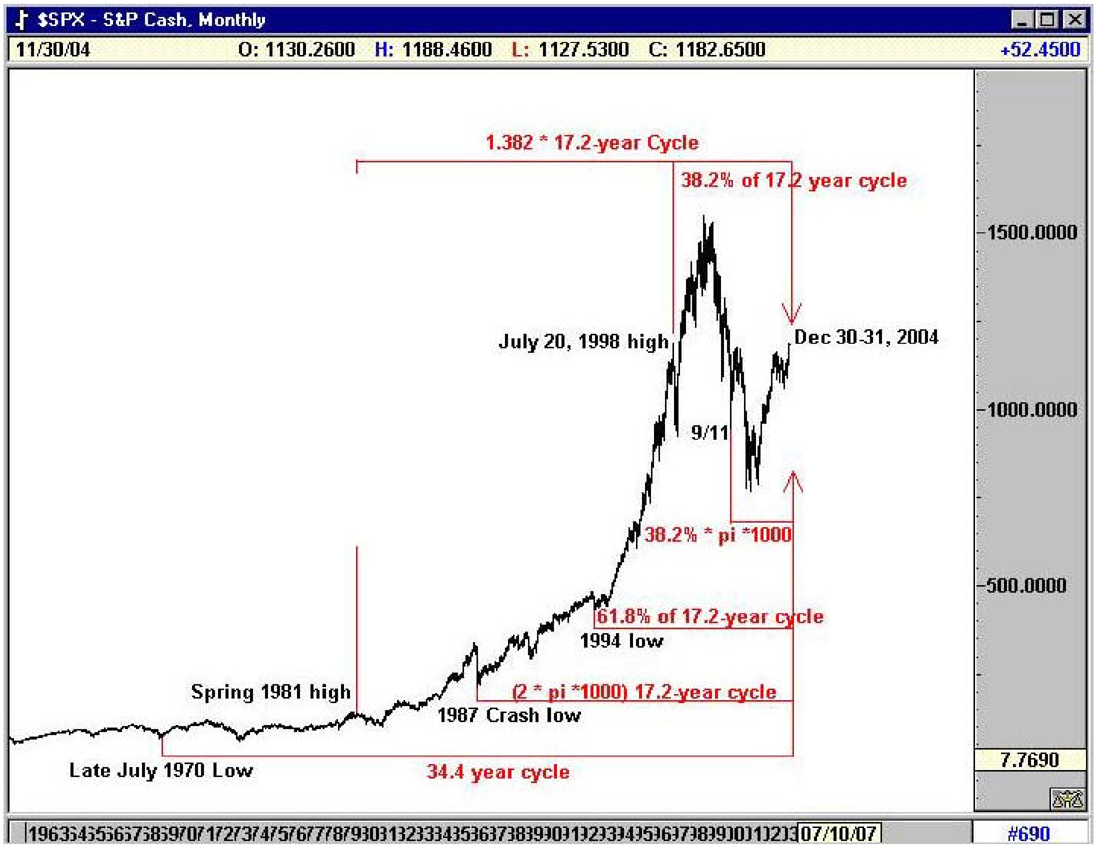
1991.025 (January 9, 1991) was a bit more interesting, This was the date when James Baker announced his failed meeting with Tariq Aziz of Iraq in an effort to avert the first Gulf War. Markets bottomed a few days later when U.S. assault to retake Kuwait began.

1992.1 `(Feb. 6, 1992) was not a date of huge significance, but was near a historic low in sentiment toward commodity markets such as gold, silver, and copper. Interestingly, a full 2*pi*1000 cycle count from this date (6282 days) will be next April 18-19, 2009. Could this latter date represent a time to expect a major commodity market high? In our mind: yes, albeit commodity markets are also stretched right now in the short-term as well.

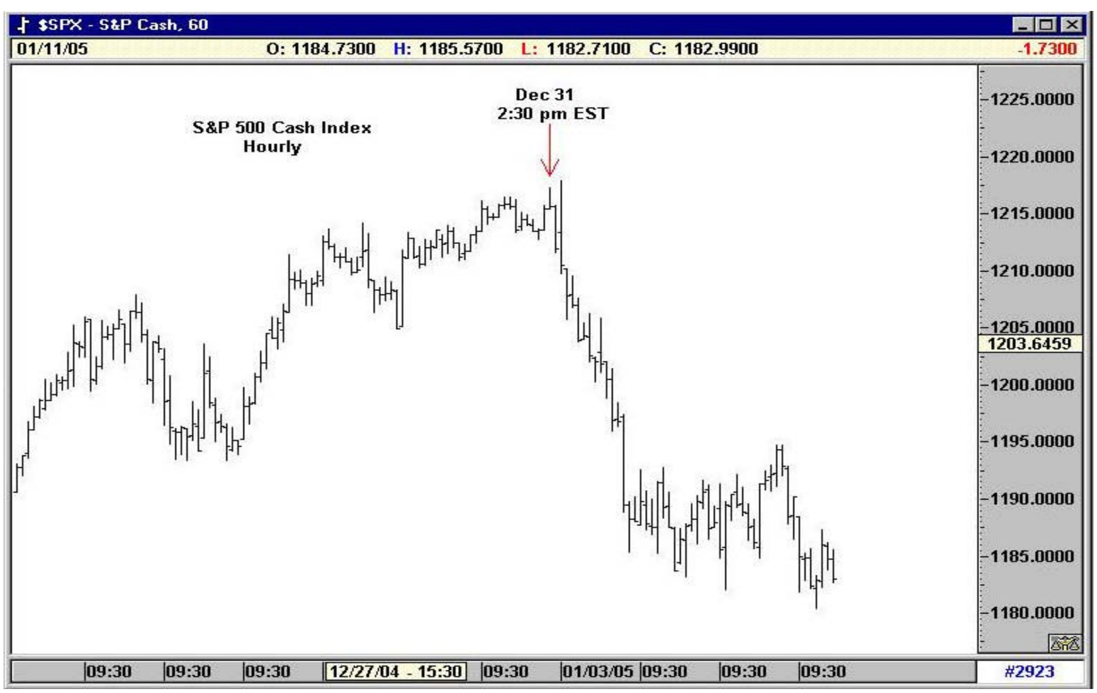
1996.4 (May 25, 1996) is not a date that sticks out in our mind as very important, but the next date 1997.47 (June 22, 1997) does. This was the historic high in the Thai bhat right before Julian Robertson of Tiger Management -- working together with Mike Novogratz, then at Goldman Sachs -- successfully launched an attack on that currency to begin the Asian Crisis.

Another minor swing point on the PEI chart is 1999.625 (August 17, 1999) – drawn as a low -- followed by an expected swing high on 2000.7 (Sep 13, 2000). In actuality, both dates ended up as highs within a massive topping formation on the DJIA.

Which brings us to Dec. 31, 2004-Jan 1, 2005 as the next minor swing date window. Does any reader remember the chart below that we published in November 2004, looking at the developing pi and phi rhythm into that PEI cycle turn?



And what happened when that date arrived? Dec 30-31, 2004 wasn't a lasting swing high on the S&P, but it was certainly good for a significant decline and profitable short trade. The cycle window worked so perfectly that I can remember the hair standing up on the back of my neck when markets dropped away swiftly in that first trading session of the 2005 year.



The next swing cycle turn on the PEI chart was January 27, 2006 – a date that marked a minor break in markets, but with no follow-through.

So overall, we can annotate Armstrong's original chart as follow (with major cycle turns in blue font, and minor ones in red):

And this of course now brings us to March 22, 2008 as a next minor pi cycle turn where we need to be attentive to sudden sentiment shifts.

There are so many "stretched" markets at present that it is hard to put one's finger on which one (or which several) will take the lead in reversing. But trust me: reversals certainly feel as if they are brewing.

Since credit spreads hit their historic "tights" on the last February 24, 2007 cycle date, it is certainly possible that credit spreads may hit intermediate-term "wides" into March 22, 2008. This might also imply an equity market low of some magnitude.

But one must also be attentive to stretched advances in commodities and the FX markets – where a sudden reversal would not be entirely surprising.

Or perhaps commodity markets drop first (i.e. this coming week), and we get a whiff of deflation that then allows the Federal Reserve and Federal Government do something more dramatic on or about March 22, 2008. This is actually our preferred expectation.

So here's our call: over the next two weeks -- commodity markets go down first; while equity markets remain very soft as well. It could be a period of a "quasi crash in all asset classes."

But then boom – somewhere between March 18-24 – sentiment shifts back to be more bullish. As a possibility, maybe this is the time window when the government will interject itself to do a full bail-out of the monoline insurers, or simply provide a monetary backstop to them.

Interestingly, just read what astro-analyst Arch Crawford has to say about March 2008 using a completely different astro-analysis approach to the markets:

> Mar 7-19 = Inflation hedges pull back and drop hard!
>
> Mar 15-18 = Very difficult period with potential violence and government crackdowns. More problematic news items.
>
> Mar 20 = Spring equinox early a.m. = often a turning point +/- 2-3 days
>
> **Mar 21** = Full moon squares Pluto on option expiry = unusual news, earthquakes or explosions. **Government interjects itself all over.**
>
> Mar 24-28 = Markets should be <u>sharply higher</u> this week in stocks, culminating with positive Mercury/Venus/Jupiter/Uranus combos.
>
> Mar 30-31 =Another really good day, Monday, with Mercury/Venus/Sun parallel! Good for stocks, good for sociability!
>
> Apr 6-14 = Almost all bad aspects over this period. Could be a steady dribble rather than a sharp decline.

Interestingly, Arch's work fits our cycle and technical view quite closely. He points towards a period of initial massive instability (crash-like), but where by the end of the month, people are smiling again. There should be a ping of a bottom and trend reversal on or about March 21st.

But before any reader turns into a raging bull on me, please note that there will also likely be a retest of this sentiment reversal into April, and maybe as far out as our next PEI 4.3-month cycle date of July 31, 2008. Mar 21-24, 2008 may mark only a momentum low in negative sentiment, and marginal new actual lows in the equity market may follow.

But between July 31, 2008 and April 18, 2009 we certainly expect a period that will be less problematic than the cycle that is currently ending. It will be the set-up period where some will wave the "all clear" flag; commodity markets and equity markets may advance together once again, but with the real Armageddon for the U.S. economy still lingering in the shadows to only hit between April 18, 2009 and June 14, 2011. It is this latter period that should be the functional equivalent of the 2001-2002 period, and interestingly, 2009-2011 falls across the same part of the 11-year sunspot maxima cycle as 2000-2002 where more and more sunspots appear. Readers of our past 2001 *Cycle of War* article, may also remember that such a time frame also is typical of increased war on Earth, not less. I offer my best wishes to whichever Presidential candidate is elected and must deal with this unfortunate cycle window.

So if we are right, how should one play this cycle?

We are personally selling crude oil right now. We are also small short gold, and will sell more if it pokes above $1000. We are also still short various equity ETFs including the EEM and EWJ to express a view on emerging markets and Japan both still have missing lows on a Fibonacci fractal basis. Depending upon technical market behavior, our plan is to start covering all of these positions into the March 18-21 time window. If prices have fallen to 1243-1244 on the S&P in advance of our time cycle window, we will not be piggish, and will not overstay these short positions. We will cover. We might even take a foray on the long side of equities on or about March 21st if the technicals are cooperating and a momentum low seems at hand.

After this period, however, if equities do have a swift rally, we will then get out of any equity longs and likely leave the equity market alone for awhile as it forms an expected basing pattern over multiple months. But if a commodity smash has also transpired, we will likely be getting long those markets again, and also thinking about establishing a T-Bond short. If equities and commodities are both expected to bounce into April 2009, then perhaps bonds will finally go down over this period. Maybe the best "trade of 2008" will ironically end up being short bonds, not stocks.

Let us end this discussion with a few caveats:

1) As can be seen from the original PEI chart above, 2008.225 is only a minor pi cycle swing date. Its importance is not as strong as the cycle low seen near the 2002.85 date, nor the low expected in mid-2011. Don't get carried away with it. While the majority of the PEI cycle dates have hit with some precision, not every date has been as perfect as the major 8.6-year high dates. The cycle lows in particular have sometimes missed by a week or two, and in a few instances, did not leave a memorable turn.

2) We are sitting here on March 9th trying to predict market behavior several weeks into the future. If for argument sake some portion of our roadmap starts to go awry, we will need to adjust our view. For example, should commodities extend their strength from today all the way into March 21st (not expected, but possible), then we will need to be more attentive to March 21-24 being a commodity market reversal lower at that time. We also have not focused very much on the U.S. dollar which also could leave a potential reversal from stretched extremes.

3) Always invest only after consulting your own Registered Investment Advisor, and do so in a conservative fashion befitting your own financial condition. The views expressed here are not meant as investment advice, but are simply our personal technical opinions gleaned from a variety of techniques that we have used and developed across the past quarter of a century. But we can of course be wrong in our interpretation. There is no need to be hero. Sometimes these cycle turn periods are best watched from the sidelines, and then when a new trend appears clear, there is plenty of time to get involved in that trend later on. Be careful and thoughtful.

Send us your comments at information@Sandspring.com.

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