The CPI, the Fed, and the Coming Election

By Grant Noble
June 16, 2004

Initially, the bond and foreign currency market dropped on the headline number of .6% inflation in the CPI. But then they saw the pathetically transparent lie of a .2% core number and knew how the rest of the day was going to enfold. As Jim Bianco of bianoresearch.com always reminds us, ***the core rate was invented in the 1970's to explain away inflation****,* so it was easy to guess the tenor of Greenspan's testimony to follow. Some reality in the CPI to appease those pesky voters who need a bigger adjustment in COLAs and Social Security, the usual lies in the core rate to appease bond bulls.

Some might think the most important news of yesterday was the word "measured" from the lips of Sir Alan. That was expected by me and any other sentient individual, given his track record. The only surprise was the buying panic of the bond market, which doesn't understand that Greenspan knows no more than John Law about economics. Cooler heads are prevailing this morning, as the dollar soars and treasuries retreat, led by the 30 year bond, which was the leader yesterday. ***Despite the vicious attacks in the media on anyone pointing out this fact, the Fed has been injecting unprecedented sums into the banking system the last few months****.* ***But we may have reached the point where the Fed's printing press merely goes into servicing or retiring the debt mountain rather than into securities or commodities.*** *This era may be like 1930-32, when massive interest rate cuts by the Fed did nothing to stimulate demand for bonds, which tanked any way.* If the Fed is secretly buying bonds through other foreign central banks, this is only killing the yield curve, which according to Jim Bianco, is the principal speculative vehicle of this interest rate cycle. ***Quicker than you can say Long Term Capital Management, we may have major security firms going under---which may be why there was a massive sell off in brokerage houses yesterday.***

NO, the most interesting piece of news yesterday was an email dispatch of Gary Bauer, a former GOP presidential candidate and icon of the "Religious Right", that claimed a vote has been scheduled for July 15 in the U.S. Senate for the Marriage (as only between a man and woman) Amendment. This is by far a much better reason to rally bonds than the tired old nostrums of Printing Press Al. It is the Republican Senate that is most in danger of flipping over to Democrats and, provided liberal "Republicans" Spector and Murkowski are smart enough to vote for it, this vote will embarrass Democratic Senators whose seats are up this fall and be a big positive for continuing Republican control Even the Dems who are retiring will hurt their would-be Democrat successors if they take the homosexual money and vote against traditional marriage. Maybe Majority Leader Frist is tired of a handful of "moderates" holding up the entire budget. Maybe he knows he won't even be Minority Leader Frist if the Republicans lose control.

The other interesting angle is Presidential politics. If John Edwards wants to be Kerry's Veep, he's going to have to vote against traditional marriage. The homosexual lobby is one of the biggest money pillars of the Democrat party and it has firm alliances with all the funding lobbies of the Democrat party, especially the feminists. There are other potential Veeps, like Indiana's Evan Bayh, who will have to make this choice as well. Of course, Kerry will be forced to vote against traditional marriage. He has only made about 10% of the votes in the Senate this year, but he won't be able to duck this one. And the Veep that Democrats wish for, John McCain, will also have to vote on this hot potato.

Since Frist is a bought and paid for subsidiary of Bush, any Senate vote must have been approved by the wizards of the White House. I confess that I am surprised at any possible vote in the Senate. I always thought the first vote would come in the House to prevent embarrassment to Republican "moderates" and Skull and Bones brother Kerry. ***It looks like the White House has woken up to the fact they are losing this race and have to start appealing to their base and Reagan Democrats on core issues.*** Bauer is unlikely to be wrong. Should Bush & Co. back out of having any vote on the Marriage Amendment this year, they are certainly finished with millions of religious voters and their leaders like Bauer. Now that Bush has proven his credentials with "moderates" by going to the mat for Spector and virtually every other moderate in a Republican primary, he has the political capital to demand this difficult vote as the price of his reelection. Without Presidential arm twisting, the Marriage Amendment wasn't going to pass the House any way. Defeating it first in the Senate gives maximum benefit for Bush without him having to do anything to threaten the status quo. Forcing a Senate vote on the Marriage Amendment would be first smart political thing Bush has done since pushing for tax cuts in 2003. Undoubtedly, its defeat before the Democrat convention will be spun by the media as a "repudiation of Bush and his far right followers". ***But if we actually get a vote, it would be best reason to buy bonds and stocks for a fall rally. It will certainly cinch a Republican Senate after the 2004 election and it might even be enough to get Bush over the finish line.***

Like Milton Friedman, I'm a firm believer that the Fed should have never been created. It's the ultimate "rent seeking" device for political and economic insiders. Given the track record of the last 90 years compared to the 90 years that preceded it, the Fed hasn't contributed a thing to after inflation economic growth or stability. But it has had one major effect besides increasing the price level 20 times since its start in 1914. Inflation and an implicit guarantee to bail out financial excess have increased the size and duration of stock bulls, even while subsequent declines are the same. Now that put/call ratios are back to normal, "the bull should run longer based on history" is the last major bullish argument for stocks. But ***if we are seeing the end of the Fed as a force and/or the limit of government intervention in the economy because of globalization and the debt mountain, then the recent bull since the October 2002 lows has just about run its course given stock history before World War II***. Yesterday was the 584th calendar day since the low close of 2002 in the SPX. We may have run out of time unless Bush & Co.

can pull off a minor miracle in November. Then we might have a final bull top around the historic median for stock bulls close to 2 years after a bottom. ***But at the very least, first we need some sort of market collapse, as the thought Bush & Co. might lose big this fall makes it past the editorial pages of the New York Times. Otherwise, buying for a big rally is hardly worth the gamble.*** (Grant Noble, P.O. Box 146, Lake Forest, Il. 60045 847-234-3520 gnoble@sbcglobal.net)

(Note on stock tables below. I used closes to keep consistency over the data. I used a minimum 29% up for bull markets and 19% down for bear markets. This reflects the consensus of 30% up for bulls and 20% down for bears, with 1% less to compensate for intraday highs and lows since I used closes---where I could compare intraday data with closes that worked. In my experience, a 20% fall or 30% rise in a major index has always triggered media speculation and a short term extreme in the market---and often a long term extreme, like the 30% rise in the Dow in 2002. ***The data shows these levels generate major reversals far more than chance***.)

Bulls (S&P 500 Close After 9/3/1929, Dow Close Before)

Date	Low	Date	High	% Gain	Calendar Days Up
7/2/1885	25.83	12/3/1886	36.91	42.9	519
4/2/1888	29.48	5/17/1890	38.82	31.68	775
7/26/1893	24.25	9/4/1895	32.98	36	770
8/8/1896	20.86	9/10/1897	40.98	96.02	398
3/25/1898	30.77	9/5/1899	56.85	84.76	529
9/24/1900	38.8	6/17/1901	57.33	47.76	266
11/9/1903	30.88	1/19/1906	75.45	144.33	802
11/15/1907	38.83	11/19/1909	73.64	89.65	735
9/25/1911	53.43	10/8/1912	68.95	29.05	379
12/24/1914	53.17	11/21/1916	110.15	107.17	698
12/19/1917	65.95	11/3/1918	119.62	81.38	684
8/24/1921	63.90	9/3/1929	386.1	504.23	2932
11/23/1929	17.66	4/10/1930	25.92	46.77	138
10/5/1931	8.82	11/9/1931	11.52	30.61	35
6/1/1932	4.40	9/7/1932	9.31	111.59	98
2/27/1933	5.53	7/18/1933	12.2	120.6	141
10/21/1933	8.57	2/6/1934	11.82	37.92	108
3/14/1935	8.06	3/6/1937	18.68	131.76	1088
3/31/1938	8.50	11/9/1938	13.79	62.24	233
4/8/1939	10.18	10/25/1939	13.21	29.76	200
4/28/1942	7.47	5/29/1946	19.25	157.7	1492
6/13/1949	13.55	7/15/1957	49.13	262.58	2954
10/22/1957	38.98	12/12/1961	72.64	86.35	1512
6/26/1962	52.32	2/9/1966	94.06	79.78	1324
10/9/1966	73.20	11/29/1968	108.37	48.05	782
5/28/1970	69.29	1/11/1973	120.24	73.53	958
10/3/1974	62.28	9/21/1976	107.83	73.13	719

3/6/1978	86.9	11/28/1980	140.52	61.7	998
8/12/1982	102.42	8/25/1987	336.77	228.81	1839
10/19/1987	224.84	7/16/1990	368.05	64.09	1001
10/11/1990	295.46	7/17/1998	1186.75	301.66	2471
8/31/1998	957.28	3/24/2000	1527.46	59.56%	571 (533 if 10/8/98 low is used)

Average Gain 105.1% Average Time Up 880 days
Median Gain 79.78% Median Time Up 735 days

Before the Fed
Average Gain 66.9% Average Time Up 575 days
Median Gain 47.76% Median Time Up 529 Days

Before 1940
Average Gain 93.31% Average Time up 576
Median Gain 81.38% Median Time up 519

Bears (S & P 500 Close after 1921, Dow Close Before)

Date	High	Date	Low	%Down	Calendar Days
12/3/1886	36.91	4/2/1888	29.48	20.13	486
5/17/1890	38.82	7/26/1893	24.25	37.53	1186
9/4/1895	32.98	8/8/1896	20.86	36.75	339
9/10/1897	40.89	3/25/1898	30.77	24.75	196
9/5/1899	56.85	9/24/1900	38.80	31.75	384
6/17/1901	57.33	11/9/1903	30.88	46.14	875
1/19/1906	75.45	11/15/1907	38.83	48.54	665
11/19/1909	73.64	9/25/1911	53.43	27.44	675
10/8/1912	68.95	7/30/1914	52.32	24.12	660
11/21/1916	110.15	12/19/1917	65.95	50.13	393
11/3/1919	119.82	8/24/1921	63.90	46.58	660
9/7/1929	31.92	11/23/1929	17.66	44.67	77
4/10/1930	25.92	10/5/1931	8.82	65.97	512
11/9/1931	11.51	6/1/1932	4.4	61.81	205
9/7/1932	9.31	2/27/1933	5.53	40.6	173
7/18/1933	12.20	10/21/1933	8.57	29.75	95
2/6/1934	11.82	3/14/1935	8.06	31.81	401
3/6/1937	18.68	3/31/1938	8.50	54.5	390
10/25/1939	13.21	4/28/1942	7.47	43.45	916
5/29/1946	19.25	6/13/1949	13.55	29.61	1111
7/15/1957	49.13	10/22/1957	38.98	20.66	99
12/12/1961	72.64	6/26/1962	52.32	27.97	196
2/9/1966	94.06	10/9/1966	73.2	22.18	242
11/29/1968	108.37	5/26/1970	69.29	36.06	178
1/11/1973	120.24	10/3/1974	62.28	48.2	630

9/21/1976	107.83	3/6/1978	86.9	19.41	531
11/28/1980	140.52	8/12/1982	102.42	27.11	622
8/25/1987	336.77	10/19/1987	224.84	33.24	55
7/16/1990	368.05	10/11/1990	295.46	19.72	87
7/17/1998	1186.75	8/31/1998	957.28	19.34	45 (83 if 10/8/98 is used)
3/24/2000	1527.46	10/9/2002	776.76	49.15	929

Average Loss 36.1% Average Time Down 452 days
Median Loss 33.24 % Median Time Down 393 days

Before the Fed
Average Loss 33% Average Time Down 607 days
Median loss 31.75% Median Time Down 660 days

Before 1939
Average Loss 40.17% Average Time Down 465 days
Median Loss 40.6% Median Time Down 401 Days

Grant Noble is President and CEO of SBC Global, and the author of the book, *The Trader's Edge, Cashing In On the Winning Strategies of Floor Traders, Commercials & Market Insiders*, Probus Publishing, Chicago, Illinois and Cambridge, England, copyright 1995. Grant also writes a daily Markets Newsletter and he can be contacted at gnoble@sbcglobal.net**. P.O. Box 146, Lake Forest, Il. 60045, Phone 847-234-3520.**