

ATAA talk, January 24th, 2008

Slide: plan for today

Synopsis

For the past 7 years at least, Phil has been following the sun to Europe during the southern winter, whilst continuing to trade for a living. (And whilst also writing a book it might be added.) The beginning of this presentation to the ATAA will focus on what he has learnt during this time, the ups, the downs and a few pitfalls for the unwary: how to be able to continue placing the trades whilst on the road.

The second half of the presentation will focus on the forecasting side of markets, and I will show how it is usually possible to know well in advance the months of each year that are going to be volatile, plus also the days of each month to be particularly alert to.

The presentation will finish with a few pointers for the 2008 and 2009 markets.

May I say first:

Nice to be back –

(Due to time constraints, some of the comment about travelling and trading had to be omitted.)

Slide: real estate rhythm

Slide: US land sales 1800 – 1923.

Speculation in urban and rural lands and real estate, using bank credit, was a common phenomenon which sharply raised property values...

To 1837

Land sales peaked in 1836, 9 months later, in May of 1837, a heap of bank runs, then panic.

Using excerpts from the New York papers of the day, they reported a Mr John Fleming, President of Merchants Bank "fell dead from excessive anxiety with regards to the affairs of the bank May 4th, from which a run set in on all banks. The failures grew worse over the next two days, and United States Bank stock fell below par for the first time. On May 9th there was a "furious run on all banks", May 10th, "chaos".

1857

Land sales peaked in 1854,

At the turn, a bank run, described thus:

On September 25th 1857 yet another leading financial institution, the Bank of Pennsylvania, in Philadelphia, closed its doors. Papers reported 'the wildest excitement' just about in the whole city, as queues of depositors formed at other banks in the city, demanding their money, now!

In all the excitement, a teller at the Ocean bank paid himself out some \$50,000 of the banks funds, a teller at the National grabbed \$70,000. The bookkeeper of the Union Bank stole \$200,000 and promptly fled with the loot after it was discovered he had been forging balances for months.

Slide: 1830's, 1850's acceleration in bank lending

Note the increase in lending towards the end of each cycle.

Slide: US Land sales 1800 - 1923

1873. Land sales peaked in 1869.

Time constraints, could not focus on this cycle, except to read out the bank runs:

A revival of the property market was being anticipated in the autumn, as per usual; however the September 18th announcement in New York of the failure of Jay Cooke and Company startled investors. Indeed, the initial reaction to the collapse of America's most prestigious banking concern was disbelief. In Pittsburgh a paperboy was arrested for shouting out the news, because it was news which police had not yet heard and believed the paperboy was making it up to garner more sales. "Incredulity soon gave way to panic, as the stock market collapsed and daily interest rates rose to 5 percent."

The next day, crowds thronged the financial district to witness the unravelling of the speculative drama that had entranced the nation for the past decade and a half... Vanderbilt's son-in-law, Horace Clark, was found dead after the failure of the Union Trust Bank, from which he had borrowed heavily to finance his margin speculations. Daniel Drew, the Old Man of the Street, took his final curtain call as his brokerage, Kenyon, Cox and Co, was swept away in the panic. Declared bankrupt, Drew retreated to his bed...he died a year later. When the panic continued into Saturday, the President of the New York Stock Exchange announced that for the first time in its history the exchange would close - until further notice."

Historian Alfred Chandler, (page 506), about September 18th wrote: "On the day of the Jay Cooke failure, these shares dropped in price so suddenly and sharply that banks and prominent brokerage houses collapsed like pins in a game of ten-pins. On the street, within the shadow of the stock exchange, some men wept and some attempted suicide at the realization of their financial ruin. I saw all this, as I was in the midst of it and it made a lasting impression."

1893

Land sales peaked in 1888, well before the months of panic as usual, with sales falling markedly after 1890.

The bank run:

The banking panic began this time in the interior of the country - in Chicago. On May 8th, without any prior warning whatsoever (to the public and its depositors at least) the Chemical National Bank of Chicago did not open for business. Its doors never did in fact reopen and depositors were faced with the prospect of losing a collective \$1.6 million. "Excessive loans had been made to the bank's directors and to some of the shareholders."

Three days later on May 11th In Indianapolis, the Capital National Bank, closely associated with the Chemical National, failed. Depositors here lost \$1.1 million. The next day, May 12th, the Columbia National Bank of Chicago failed (the result of rumours caused by the Chemical National failure), with \$1.5 million of depositors cash lost. This was a bit more serious, since the Columbia's deposits were mostly deposits from other banks.

June 3 The largest commercial paper house in Chicago, Herman Schaffner & Co. closed its doors on this day, taking with it depositors money to the tune of \$850,000. A private bank, Schaffner & Co. had been speculating in railway bonds, which, as a result of the stock market collapse, were now worth far less than previously. The bank's president was last seen renting a boat, rowing far out into the waters of Lake Michigan and is then presumed to have jumped overboard, never to return. The panic was on.

Real estate into 1932

Again, a real estate speculation peak just over 18 years after the last one.

1930, the turn after a bank run:

In early November of 1930, the banking empire of Rogers Caldwell, centred in and around Nashville, Tennessee, collapsed. Rogers Caldwell controlled the largest network of banks in the Southern regions of the US and was, as it happens, heavily invested in real estate. Then, on December 11, 1930, The New York based Bank of the United States (in some ways a misleading name since it was not connected with the government in any way) went bust. This, it was said, was due not only to the bank's stock market losses of its affiliates, but also to an over exposure to declining property prices.

Describing the scene as the Bank of the United States closed its doors, James D Horan (*The Desperate Hours*) wrote: "It was one of the most disastrous failures in the banking history of the country...men wept as they tried to rush past the police guards and pounded on the closed doors; women screamed as they held up their bank books. Crowds refused to disperse and stayed outside the doors for days, hoping that their savings were not lost."

1974

A run on Franklin Bank of New York. A quote from the time:

"Luck, more than anything" said Federal Reserve Board Chairman, Arthur Burns, in talking to a Newsday reporter in late 1974 after describing having just averted a worldwide financial panic. "We were sitting on a volcano. People were concerned in this country, but they were really scared abroad. We can't let it happen again, because we might not be so lucky the next time."

Slide: Some UK figures

Comment re fed and govt's worry about wages: governments and bankers worry about what wages and what inflation is doing: compared to land price, you need a magnifying glass to see such an increase.

Land price is the indicator to watch; only EIS does this. It is why government and bankers cannot forecast correctly, nor have any idea why recessions happen. In each cycle, land price increases practically exponentially towards the end. This is what brings on the recession.

1989

"Perhaps the most significant financial crisis in this nation's history."

GAO Director Harold Valentine, describing the bank and thrift fraud to a Senate Committee on Banking, Finance and Urban Affairs, Sub-committee on Consumer and Regulatory Affairs, *Effort to Combat Criminal Financial Institution Fraud*, page 19. 102nd Congress, 2d session, February 1992

"This industry is very close to the heart of the American economy. We teetered on the edge of a major, major problem here... we teetered on the edge of a major collapse... You know, all these (financial) industries could bring down the whole economy! "

Senior staff member of the Senate Banking Committee, personal interview quoted in *Big Money Crime: Fraud and Politics in the Savings and Loan Crisis*, page 135.

Slide: raw land always last in the cycle

UK news headlines:

- Northern Rock Bank run
- Panic in the market

This is telling you that the real estate cycle has turned. It will be 4 years down now for real estate prices. Expect the real estate low for the US in 2010. It is very hard for me to believe the rest of the world will not follow.

Gann market analysis.

Stock market by years, 07 examples

Slides: Dow Jones 1992 – 2007, 1987, 1977, 1967, 1919.

These are the usual Gann counts, 15, 20, 30, 40 etc. Note the usual mid-year peak for years ending in 7, then down for the remainder of the year, often continuing well into Jan / Feb of the following (8) year.

Note;

Strictly speaking, Gann would run his year March to Feb, not Jan to December

Work large to small time frame

Observe January in year 8 of each decade, a down month.

Slide: 2007, 144 days Feb to July peak.

Slide: Gann's 'wheel', square and triangle inside the circle.

You of course are seeing these charts in hindsight; i remind you that all of this analysis was done for subscribers and presented in EIS classes, February through April of 2007.

(The astro signs in the slide have nothing to do with what I do, this 'planting guide' is the only thing I have found that puts time in a circle, which is why I use it.

Circle: Jan 2000 plus 90 months for high

Sept 01 plus 90 months for low – March 2009