

The American 36-40 Year Politically-Induced Business Cycle

Three Cycles: I: @1913—1945 II: 1945—1982 III: 1982—2016-2018?

“SUMMER” into “FALL”

1920: Bank Failures (just as bad as 1933) Fed doesn't intervene—HOOVER DOES! Inflation booms throughout 1920's

11/22/63: JFK Assassination; 1964: LBJ "Great Society"-Medicare; Vietnam, "Space Race" and the "Cold War"

2000/01: "Dot-com" bubble bursts; "9/11"; run-ups to wars in Afghanistan & Iraq; Bear Market of 2001-2003

Massive Deficit Spending programs: Medicare part D, 2005

“Fall”: Economic growth begins to slow down; U.S. economy more susceptible to world events.

Extremely high Dow P/E ratios. Commodities surge.

“FALL” into “WINTER”

1929-Stock Market Crash

1971-Wage and price controls; dissolution of Bretton Woods—Dollar off the Gold Standard. Gold rises 250% to \$850. Dow plummets. Dollar devaluated.

1974: Arab Oil Embargo—Stock Market nose dives again 67% drop

Nixon resigns. Ford's "WIN" (Whip Inflation Now)

1977/78- Carter devalues Dollar. Inflation @ 14%. Unemployment soars.

2006: M3 Soars; Dollar Devalued vs. China's Yuan

2007: Dow Industrial P/E hits 53; Irrational exuberance bubble bursts

2008: Sub-Prime Mortgage Crisis, Financial Crises of various kinds, Automaker failures. Pre 1998 Inflation rate at 12.5%; Pre-1994 Unemployment rate at 12%

WINTER: Market Crashes; high unemployment for long periods
Basic commodity prices soar (food, energy, precious metals)
HIGH VOLATILITY-- stocks & bonds are poor investments.

“SPRING” into “SUMMER”

1913: Creation of the Federal Reserve, beginnings of economic manipulations

1914-1918: World War I

1956: Interstate Hi-way and Defense Act

1957: Sputnik First Post-War cycle was shallow due to lingering WWII debts.

1990: First Gulf War; War with Islam no longer proxy war with America

1990: GHW@ Bush "41" reneges on tax pledge; recession begins

1992: Democrats win Presidency; NAFTA

1993: Statistics lie: BLS revisions in unemployment reporting

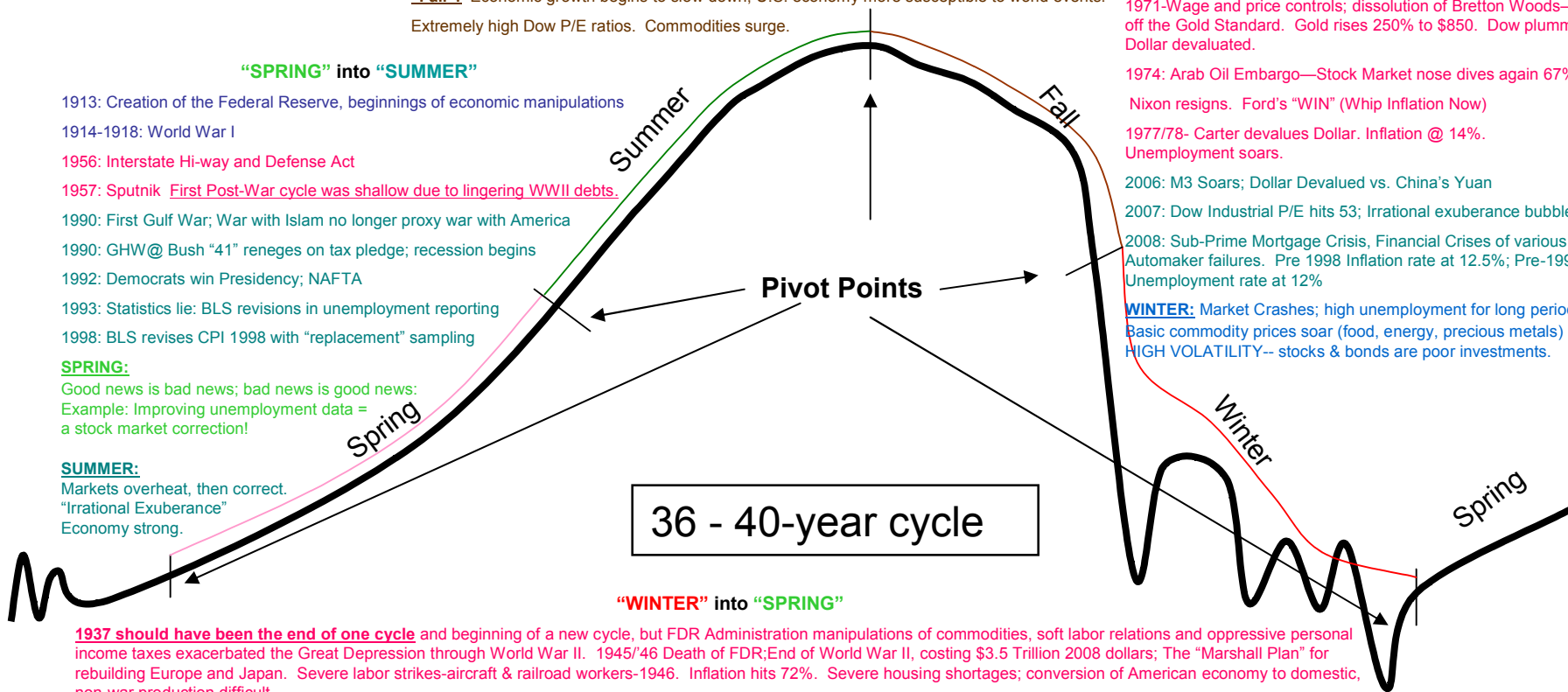
1998: BLS revises CPI 1998 with "replacement" sampling

SPRING:

Good news is bad news; bad news is good news:
Example: Improving unemployment data =
a stock market correction!

SUMMER:

Markets overheat, then correct.
"Irrational Exuberance"
Economy strong.



Pivot Points

36 - 40-year cycle

“WINTER” into “SPRING”

1937 should have been the end of one cycle and beginning of a new cycle, but FDR Administration manipulations of commodities, soft labor relations and oppressive personal income taxes exacerbated the Great Depression through World War II. 1945/46 Death of FDR; End of World War II, costing \$3.5 Trillion 2008 dollars; The "Marshall Plan" for rebuilding Europe and Japan. Severe labor strikes-aircraft & railroad workers-1946. Inflation hits 72%. Severe housing shortages; conversion of American economy to domestic, non-war production difficult.

1979: Taking of Hostages @ American Embassy in Tehran

August, 1982: "Reaganomics": Volcker tightens money supply, Laffer "Supply Side" Economics; Massive Income Tax Cuts; bombing of Marine Barracks in Beirut begins war with Orthodox Islam; proxy war with Iran

36 to 40-year cycle period—An Unnecessary Cycle—Artificial!! Each segment of this cycle seems to last 8-10 years. External, unaffiliated events cause capitulations. Pent-up labor demands, shortages; changes in American Regime (political party in power) Need Constitutional Amendments for: Line-Item Veto, Term-Limits for Congress/SCOTUS, Balanced Budget; Limitation on Federal Reserve manipulation of Credit/Money Supply by politicians and banking industry Elimination of CRA; registration and increased regulation (full disclosure) of bundled mortgages sold between investment banks Eliminate the Federal Reserve!
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Annual Average vs. Annualized Returns

- 3 Years' earnings: +15%, -15%, +15% (High Volatility=High Risk=High Standard Deviation)
- Average Annual Return = 5%
- Annualized return = **3.98%** (what you really earned!)

- 3 Years' earnings: +7%, -3%, +11% (Funds selected for the asset model with LOWER Standard Deviation)
- Average Annual Return = 5%
- Annualized return = **4.83%** (a little bit better)

- 3 Year' earnings: +6%, 0%, +9% (Further reduction of overall Standard Deviation in allocation model)
- Average Annual Return = 5%
- Annualized Return = **4.93%** (Less concerned about hitting out of the park, more on **CONSISTENCY**)

- **Lessons:**
 - The higher the volatility, the greater the difference between average annual return and annualized return (annualized return is what you really earn or lose!)
 - Reduce Volatility with lower Standard Deviation!
 - Select Asset Classes NOT on 50-year-old paradigms of “stocks vs. bonds”. Better to pay attention to the **NEXT TEN YEARS'** outlook of the ABCT cycle.