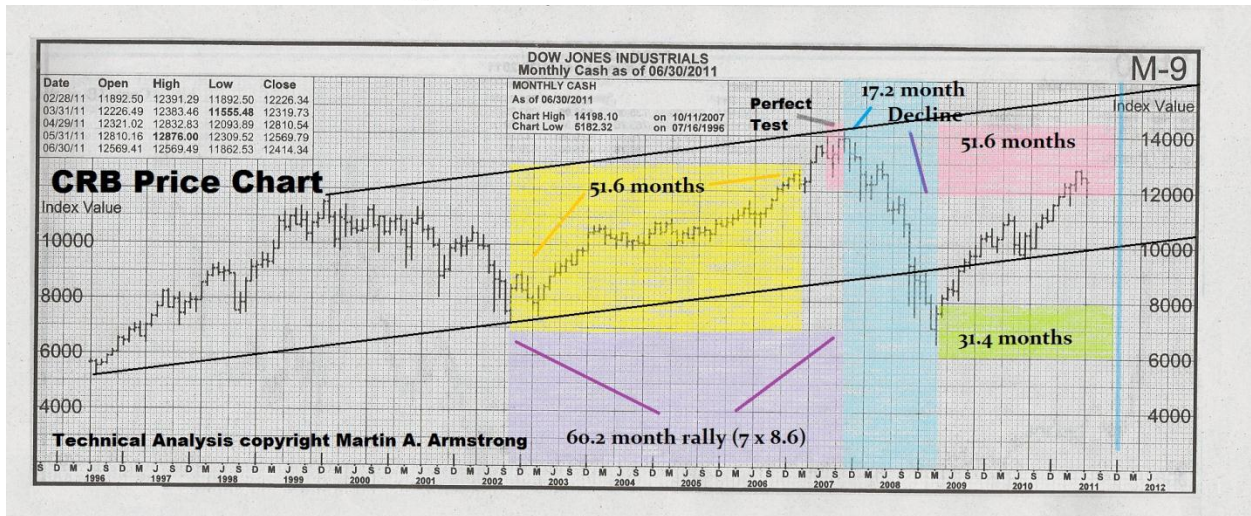


Answering Your Questions



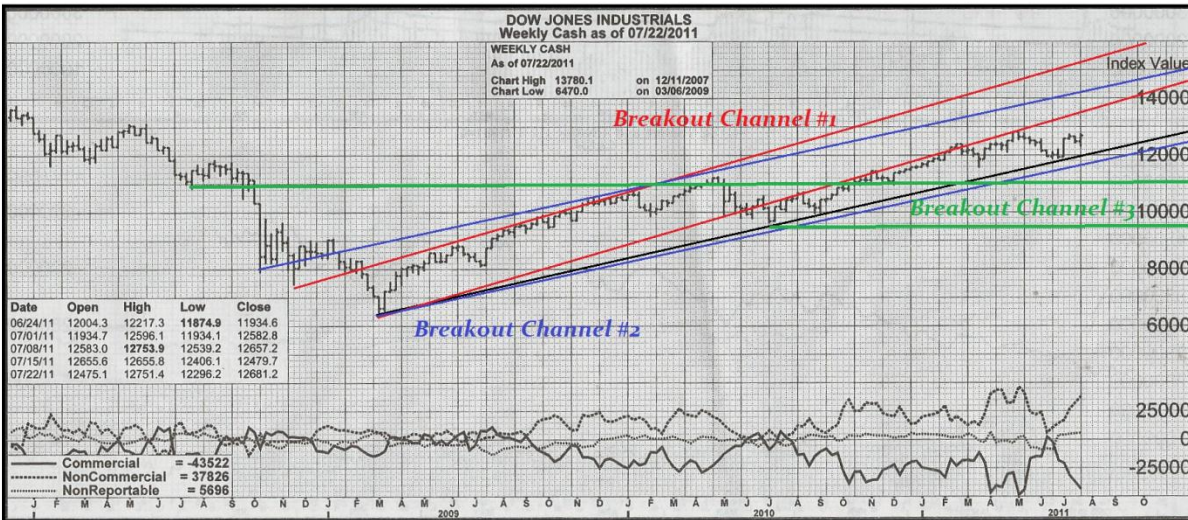
COPYRIGHT MARTIN A. ARMSTRONG AUGUST 4TH, 2011

DOUBLE DIP & EUROPE

To the surprise of most fundamentalists, they expected politics as usual and that Congress would extend the debt ceiling on the 11th hour and everything would be honky-dory. What the fundamentalists, and those on Capitol Hill seem to have missed, this is not business as usual. We are pressing the envelop here and the economy is still in intensive care. As I wrote in **Uncle Sam is Dead Broke** (July 30th, 2011);

*Until we accomplish a monthly closing ABOVE 12686, the Dow remains vulnerable to a correction. The highest monthly close has been only 12595.37. The main support begins at 11006. What these charts illustrate is the organization of time both **BEFORE** and **AFTER** the 2007.15 high in the **Economic Confidence Model**. We are now approaching the overlap period. August 2011 is the precise target in the bonds. In the Dow, we have this same period, Oct/Nov and then Dec/Jan 2012. It certainly looks like the chaos in Washington is playing precisely as it should and is exactly once again one time.*

Forecasting by personal gut feeling can be so so, for its greatest drawback is we are all human. The real money doesn't want clairvoyance; they want cold hard lines in the sand. There are specific prices that one must draw in the sand. **12,686** was the monthly closing resistance. Until that is exceeded, there is no breakout to the upside. In the opposite direction, the support lies at **11006**. A monthly closing **BELOW** this level then focuses our attention on **10810**. A monthly closing BELOW that area would then warn of a retest of the 2009 low at 6440. The lowest monthly closing has been 7062.93. **The major long-term support lies at 5975**. This is the key area for any real long-term event horizon.



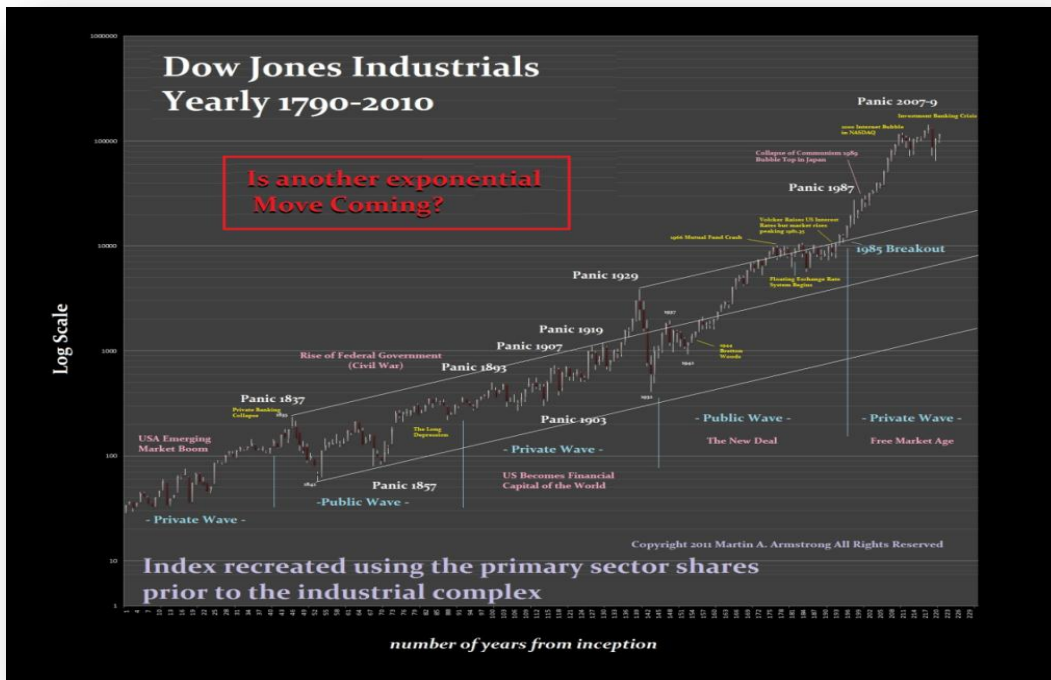
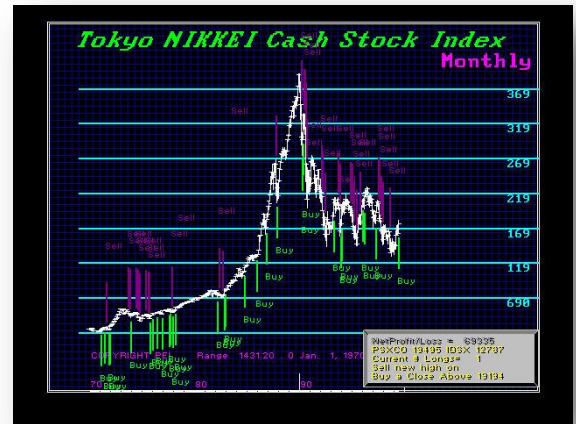
When we look at the performance of the Dow on a weekly level, any experienced trader can see why I said **“the Dow remains vulnerable to a correction.”** The first **Breakout Channel #1** showed that the Dow fell below that channel in the summer of 2010. It then rallied, but it hugged the bottom of the channel unable to break back into it. Finally, in May, it rallied up and kissed the channel from underneath. This is a visual pattern that simply showed the market was tired. Today's close at 11338.68 is now starting to break the bottom of **Breakout Channel #2**. This now warns of vital support at the **10800-11006** level.

Panic is filling the financial streets. There were institutions so frightened about the US default; they were actually depositing cash in banks. Bank of New York even announced that they would charge a fee and interest rates went negative. The traders are trading based upon their distorted views of how things should move. They are going to bonds and cash, selling equities, yet buying government debt that is the center of all problems. This trend is normal. We have not yet reached that sweet spot when the markets flip. As illustrated here, the Dow more than doubled between 1932 and 1937 as did unemployment. The markets finally figured out that it was government not corporations at risk.



September looks to be a highly volatile month and we could even see an outside reversal. The big turning point appears to be next December/January. The trend should begin to change at that time. For now, we are really vulnerable on so many fronts. What is good about a stock market correction is that Congress pays close attention only to that. If their personal portfolios drop, then everyone will start asking where is QE3! Until that happens, they could care less about anything else.

There is the Doom & Gloom crowd that keeps calling for the end of the Dow because that is what happened in 1929 and they cite also the Nikkei. The comparison is not even close. In both cases there was a **PHASE TRANSITION** whereby the market blasted upward and doubled in the last few months. The US market has not done that at all. It will become an eventual bubble as did the NASDAQ in 2000. However, as I just wrote, the Dow will hit 50,000, but that is in the years head - not now! And that implies a decline in the purchasing power of the dollar. For now, the Euro is the big problem and that is likely to be torn apart at the seams before a politician over there is willing to listen to reason.



What you see here in the Dow is another sideways plateau move. We are building a sideways pattern as we did in the 1970s preparing for the next space launch. So for now, it is correction time. It is still not the end of the world as long as we hold **5975** on a monthly closing basis for this is the bottom of that plateau.