Bert Dohmen's
Wellington Letter™
A Fundamental and Technical Analysis of the Economy and Investment Markets

"CELEBRATING our 37TH YEAR of UNSURPASSED FORECASTS"

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I contend that for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle. --**Winston Churchill**

AHEAD: MORE TURMOIL in the GLOBAL MARKETS

THE STOCK MARKET

Money managers are in a tough situation. Almost everyone went into the global plunge of August loaded up with stock and less than 5% cash. The stocks they bought anytime this year are probably being held with substantial losses. They were so surprised and shocked by the crash of August 24, they didn't sell. They probably wanted to sell the next day, but the DJI plunged another 204 points. So they wait for a technical market rally on which to sell and raise cash.

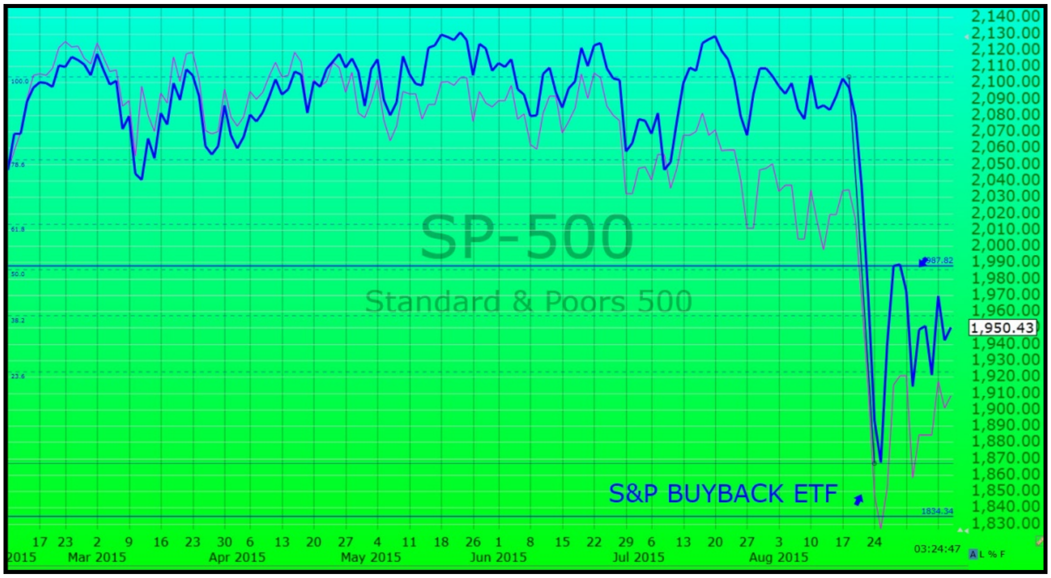
Any money manager wanting to sell larger amounts on Aug. 24 probably couldn't get any offers for their stock. Liquidity dried up when the DJI plunged over 1000 points in the first 30 minutes.

The analysts appearing in the media tell you about a buying opportunity. They don't say where the buying will come from. Cash levels were near record lows and margin debt was at record highs going into the crash day.

The biggest source of buying for six years has been corporate stock buybacks, but these will now dry up. Smart management will now want to conserve their cash as they fear a potential global recession.

The lack of liquidity has been a hidden problem since the meltdown of 2008-2009. That has been covered up by the huge corporate buybacks. As the buybacks diminish, the true lack of liquidity will be revealed.

Buybacks are financial engineering, which do nothing for the company. It replaces equity (ownership) with debt. There is an S&P Buyback ETF that contains the companies that do buybacks of their own stocks. It shows that the companies doing buybacks underperform the stocks of firms that do not. See the chart below. The pink line is the S&P BUYBACK ETF.



The source of most other buying will now dry up as well. For example, CALSTRS, the nation's second-largest pension fund, has $191 billion in assets. Its management proposes to shift away part of its investments from stocks and bonds. They are considering moving as much as $20 billion, or 12% of the fund's portfolio, into US Treasuries, hedge funds, and other investments as protection against a significant stock market decline.

As you know, we consider " US Treasuries" the only real "safe haven" for big money.

On the same day of the CALSTRS announcement, Bill Gross, the founder of investment giant PIMCO, now CEO of Janus Funds, said investors should 'move to cash.'

When some of the largest and most experienced think this way, it's significant. The casual money managers might take that as a contrarian "buy" signal, but we do not. You can apply contrarian methods to mass psychology, not when a few significant members of a group voice the sentiment.

The average money manager can be seen in the media. We always wonder how they have so much time to spend in front of the cameras instead of looking at the charts and credit markets, protecting their clients.

These people missed getting ready for the plunge and therefore have to be bullish. The excuse for going through a deep valley is always, "we take the long-term view." The ones who did this during 2008 waited about 5-7 years to get back to even.

This situation is unfortunately looking more and more like 2008. The disbelief is the same. Most investors think it doesn't have to end as badly because everyone should have learned from the last experience. But the numbers show that nothing was learned. Leverage is even higher than in 2008. Overvaluations of the "Unicorns" (highly valued private firms) are in the stratosphere.

Many of the similar excesses are present. The auto industry is growing strongly, making economists bullish. But that is because of the great ease of getting the loan. If you can fog a mirror, you can get a car loan. Leading up to 2007-2008, it wasn't car loans but home loans. The collateral for the latter was a house; for car loans, it's a used car.

However, this also shows that if credit for mortgages were less restrictive, without mountains of paperwork, the real estate market could really hum.

Potential long-term positives: There are many easy things the Federal and local governments could do, without spending any money, to get us back to normal growth. We only need more enlightened leadership, in that big house in Washington and in the Congress.

Should America become very lucky, and elect a leader and a Congress made up of **non-career** politicians, we would turn super-bullish.

There is so much pent-up ingenuity in this country. More logical immigration laws could bring the best talents from other countries. The US would set an example for the world.

President Reagan set the tone in regard to reducing the growth of government. He said, "Government isn't the solution, it is the problem."

Before him the liberals were in charge in many important countries, producing stagnation, high inflation, and high interest rates. Then the voters elected two great leaders: Britain elected Margaret Thatcher. The US elected Ronald Reagan. He even got Russia to renounce communism. He knew how to negotiate, contrary to the amateurs we have now.

These two leaders changed the paths of the free world. That's what effective leaders, who have faith in the free market, can do.

I believe that putting five smart guys in a room, take the top hedge fund managers, they could put together a plan for economic revival in a week. But then the problem would be the implementation. And that's why the members of Congress need to be changed.

How about this for starters: Donald Trump was asked to recite one phrase from the bible. He couldn't. Probably 99% of all Americans can't. Why not ask candidates for Congress and higher office, as well as current members, to pass a test on the US Constitution? Anyone who doesn't pass can't serve. That would eliminate a bunch.

Back to reality: But for the next 18 months, we only expect policies to go from bad to worse. Therefore, as investors we have to go with a strategy for difficult markets.

The turmoil around the globe is increasing. Emerging countries have dangerous, accelerating outflows of capital. Their debt (in local currency terms) is growing immensely as their own currencies tumble. The rush of so-called "refugees" from the Middle East and Africa to Europe is the greatest migration in history. This will change beautiful Europe forever. It will become the breeding ground for future terrorists.

Most probably deserve help. But the terrorists will come with them and plant the seeds of destruction in civilized western countries. Notice that Russia, China, and their next door neighbors like Saudi Arabia are not taking any of these "refugees." Nor are the "refugees" storming the borders of Qatar, Saudi Arabia, the UAE.

Financial stress is accelerating globally. The so-called BRIC nations, which just a few years ago were promoted as the greatest growth investments, are now imploding. Two of the BRICs, Russia and Brazil, are in deepening recessions. Brazil's debt was just downgraded to "junk" by Standard & Poor's. Brazil is now in a desperate economic plight, with high inflation but a recessionary economy.

Other emerging countries are having increasing difficulties as their economies contract and their mountain of dollar-denominated debt grows immensely.

In Japan, the massive stimulus, in proportion much bigger than the Fed's, has been unable to produce inflation. So, the deflation continues as the economy goes back into recession.

Europe has only one major country that has a good growing economy, Germany. The others are once again on their way to contraction. Greece may have another exit crisis in a month.

We are starting to see cracks in the dam and no one is paying attention. They think all market plunges and country crises of the past 12 months are isolated events. Greece is only kept from defaulting on its debt by rescheduling and more loans.

Russia's currency has had failed bond auctions. In spite of the near $14 TRILLION created by the major central banks, there is no liquidity for those who need it most.

China is in crisis, and its private sector is in a deepening recession because of a credit crisis that started in June last year, not this year. We wrote it at that time, but every other analyst was oblivious to trouble.

China is the big elephant in the world economies. Over 50% of global growth over the past 15 years has come from China. Now that locomotive has turned into the caboose of the economic train.

In 2016, things get even tougher. The emerging countries will be in dire financial distress.

In the US, the worst parts of Obamacare kick in. Companies will reduce hours to make many employees "part time." Others will reduce their workforce to become "exempt, etc." Furthermore, there will be significant tax hikes.

The globe is now in the bearish phase of a long-term socio-economic cycle. The majority of surprises in such an environment will be negative. Have you noticed that many big problems are coming at the same time (like the China crisis, the plunge in the emerging markets currencies, increasing debt problems, Greece, Europe, Russia, Iran, and a potential debt implosion in some significant countries)?

Unfortunately, the media focuses on the most unimportant items, like an underinflated football, a clerk who won't accept marriage registrations for gays, a realty show family which has a problem child, iPhones, a larger iPad, etc. While Rome burned, Nero fiddled.

THE CHARTIST'S VIEW

The chart of the S&P 500 shows the big plunge from the five months topping, or distribution, pattern. We had warned about the likelihood of a strong plunge when the market would break to the downside. It happened. The rally from the plunge bottom is not powerful. The consolidation triangle of the past two weeks is giving the bargain hunters a lot of time to commit their cash. When it's this easy to buy alleged "bargains," it's time to be very careful.

The chart of the NYSE COMPOSITE looks much weaker. This is all the stocks on the NYSE. It's very important to see that the plunge low of last October has been decisively penetrated by the NYSE,

whereas it was not even reached by the S&P 500, which we consider a "manipulated" index. The true weakness of the stock market is seen in the NYSE. At minimum, we expect the crash low of August to be revisited. And then we shall see about going to last October's low.

The small "pennant" formation from late August (diagonal lines) has significance. Longer term the chart goes out of the formation in the same direction it went into it, which is downward. But short term, sometimes there is a very brief upside move, in this case back towards the Aug. 28 high. Then it reverses, and the chart declines. We could see this now after the Fed meeting.

The EUM (below) is a virtual short position in the emerging markets. This is a "weekly" chart, long term, going back to 2010. Note the beautiful bottom formation over the past year. The first resistance level was reached in August. We expect the next resistance in the 40 area to be reached. And then we can perhaps look at the 45 area, the 2010 high.

Below is the chart of the EDV, an ETF for Treasuries, mostly zero-coupons. That means it acts more like a leveraged ETF. It had a 20% gain during the July-August stock market turmoil. That was followed by a pullback to the Fibonacci 61.8% retracement of the prior rise. Now it is moving up. If we are correct

about the financial turmoil getting more serious over the next 1-2 months, the EDV and the EUM should do very well.

The utility sector looks interesting. It was one of the best performing sectors last year. Look at the surge going into late January. It mirrors the action of the T-bonds. Both had substantial corrections from their blow-off tops in January because of an expected Fed rate hike.

The decline has gone to the bottom of the standard deviation channel which should lend support. A 20% correction makes these income vehicles attractive. Short-term technicals have turned positive. This sector could be a "safe haven" for large money managers on a further stock market decline. Two large ETFs for the sector: VLU, VPU.

CONCLUSION: Our work continues to keep us bearish on the world's stock markets and bullish on the income vehicles of utilities and Treasuries.

THE US ECONOMY AND THE FED

The State of the Economy: Last year we predicted a much weaker economy in 2015 versus Wall Street projections of 4% GDP growth. Now GDP growth is around 1.8% at best, using official numbers. If you adjust for true inflation, it is negative.

We also said that official GDP growth would be negative for at least one quarter. We got that in Q1, but the recent "adjustment" turned that into a positive number. Beware of retroactive "adjustments."

Last week's revision for the second quarter brought GDP up from 2.3% to 3.7% growth. That revision is very suspicious. **It was a huge 50% increase from the prior estimate.** The numbers look more political than economical. Are we importing statisticians from China?

Currently the economists of the major financial firms are uniformly bullish, ignoring all the signs of worrisome deterioration. What do they say that makes them bullish? All of them name "job growth." They blindly accept the very faulty employment numbers which we see on the news. That number doesn't even include as "unemployed" those who don't have jobs but haven't looked for a job for 30 days . Neither does it include people who haven't worked for the last year.

The much better number is the U-6 number from the DOL. **And that shows over 10% unemployment. And if we count people who haven't worked in over one year, then we have over 22% unemployment.**

Currently, our work shows that a recession may occur in 2016. Remember, it usually takes about one year after the start of a recession for it to be officially identified. That would make it 2017 before we find out.

In December 2007, the headline of our Wellington Letter was "The Recession Has Started." At the time, there wasn't one economist who thought the economy was in trouble. Obviously, no one agreed with us for many months. One year later, the start of the recession was determined by the NBER to have been **exactly when we said, in December 2007.**

The deterioration is everywhere we look, but Wall Street economists look primarily at the highly erroneous labor figures from Washington. They accept these at face value without looking a little deeper.

The past 18 months we have reiterated our view of a decline in global economic growth and a potential recession. At the same time, virtually every economist has voiced the opinion of a pickup and stronger growth.

We even asked, "Where do they think this will come from?"

Since that time, all the statistics we look at have been deteriorating. You see, we don't look at governmental statistics. Most everything out of Washington is smoke and mirrors, lies, and deceptions. They call it "seasonal adjustments," or "revisions." Of course, those who believe that Washington is the cradle of truth will be looking for a strong economy.

The latest surveys indicate that only about 7% of Americans trust the government and Congress. The last trustworthy president was Ronald Reagan. That's very sad.

Early this year, we showed a chart of "rejections of loan applications" which suddenly soared. We look at US railroad freight traffic, which is declining sharply. The bulls say that's only because of the drop in energy. We look at the continued deteriorating retail sales and numerous other statistics we consider important.

Deflation is getting worse. Economist John Williams writes that "**unadjusted**, year-to-year goods inflation was down by 4.09% **(-4.09%)** in August 2015, versus an annual contraction of 3.73% **(-3.73%)** in July 2015." That's big deflation.

However, the Fed is still trying to get 2% price increases. The unadjusted number is without the Washington fudge factor of "seasonal adjustments."

Think about this: oil prices are down about 60%. **If the economy were growing, the lower prices would lead to an increase in consumption, and an increase in oil being transported by rail.** Instead, we are seeing the opposite, a reduction in consumption. The savings are not being spent.

When consumers don't spend their gasoline savings, it's a big clue that the economy is weak.

Global shipping rates (Baltic Dry Freight index) are now lower than at the crisis low in 2009. That is ominous. In 2008-2009, global shipping almost came to a standstill. We saw photos of hundreds of ships at anchor at major ports of the world, with nothing to transport. We wrote at the time, "You can rent a large oil tanker for a day for less than a yacht at Lake Tahoe."

The Baltic Dry Freight index, the rate for bulk shipping of raw materials and commodities, is now lower than anytime during the past two decades, including the 2009 and 2002 bear market low. (See chart below.)

US retail sales are historically weak. Here is an excerpt from an article on zerohedge.com on the subject:

> *The false narrative of economic recovery can be blown to smithereens by the historical data on the Census Bureau website. Their time series data goes back to 1992. GDP has supposedly risen by **22% since 2007**. General merchandise sales were $48.4 billion in July 2007.*
>
> *They were $56.1 billion in July 2015. That's **a 15.9% increase in eight years**. Even the manipulated and massaged BLS CPI figure has increased 14.5% over this same time frame. **That means that REAL retail sales at the nation's biggest retailers have been virtually flat for the last eight years. Does that happen during an economic recovery?***

The department store data is almost beyond comprehension. July department store sales were the lowest in the history of the data series. ***Sales of $13.8 billion were 22% below the July 2007 level of $17.6 billion.***

They were 28% below the peak level of $19.2 billion in 1999*. Real (inflation adjustment) department store sales are 36.5% BELOW where they were in 2007, and Wall Street shysters have had buy ratings on these stocks the whole way down. These worthless hucksters remove the buy rating the day before these dinosaur department stores declare bankruptcy.*

Excluding the debt driven auto sales, ***real retail sales are flat with 2008 levels.***

Remember, the word "real" means inflation-adjusted. We have said for many years that the official retail sales number you hear in the media includes prices increases. And that's the only reason they go up occasionally. It's not that consumers are buying more items.

Our conclusion: the entire so-called economic "recovery" is a mirage. Just ask the 92 million Americans who are not working. However, **if we are correct on a possible "Japan-like" long-term stagnation, there will be significant changes.** Smart entrepreneurs will find new opportunities, while those who still act as if nothing has changed will suffer.

For example, home builders are now starting to build rental communities. Yes, houses for rent. Why not? We've always had rental apartment complexes forever. Perhaps AirBNB will have a division for long-term rentals or "sharing" instead of short stays. The 'sharing economy' will continue to spread.

The Fed rate hike: The members of the Fed's FOMC have been all over the media as well, giving often conflicting and dubious, worthless information on whether they will hike.

It's designed to take investor attention away from serious problems that are brewing.

Over the past 12 months we have heard hundreds of economists, analysts, money managers, etc. give their opinions on whether the Fed will hike interest rates.

What is much more important, and seldom discussed, is **how the markets will react to whatever the Fed does.** Ask any of these "experts"; even if they knew with 100% certainty what the Fed would do, could they predict the market reaction? They wouldn't have a clue. No one knows.

We believe that except for the initial short-term reaction, the longer term trends will exert themselves again, and possibly in an accelerating fashion.

Even the FOMC members don't know how they will vote, much less know the market reaction.

The Fed's target for inflation is 2%. In other words, contrary to their policy of the last 100 years to fight inflation, now they are trying to create it. But for the past seven years, the more "stimulus" they introduce, the lower inflation goes. A paradox!

We are nowhere near their 2% inflation target. That latest inflation gauge of the Fed is up 1.1%. Other measures show it at less than zero. The last CPI showed a rise of a miniscule 0.1%. Other measures actually show negative inflation over the last year (i.e., below zero).

So what is there to justify a rate hike? Just the fact that they want to get away from zero interest rates (ZIRP), recognizing that Bernanke's Fed made a big mistake!

And if they hike just to demonstrate that they can, it will be a dangerous move. The IMF, the World Bank, and various international organizations have urged the Fed not to hike rates because of the fragility of the global financial system.

If the FOMC makes the decision to please both camps on the hike they could do this: just raise a miniscule 0.125%, half of what is expected. No one, including FOMC members, at this time knows if that's what they will do.

The fact is, two former Fed chairmen, Dr. Greenspan and Dr. Bernanke, made monumental errors trying to produce economic rebounds from recessions through artificial money creation. Creating something out of nothing doesn't work.

Conclusion: We believe the initial knee-jerk reaction to the next Fed meetings decision should not be followed. Be careful.

CHINA: THE GOVERNMENT CELEBRATES WHILE CHINESE INVESTORS GO BROKE

China celebrated the anniversary of the victory over the Japanese in WWII, who had invaded China during WWII and brutally killed hundreds of thousands of civilians. The China stock markets were closed two days.

President Vladimir Putin was present, next to president Xi of China.

Thirty countries were invited to send senior leaders to China's World War II Victory Day parade. Not invited were leaders of the major Western countries. Nor was North Korea's Kim Jong-un.

In the meantime, the full power of communism has come down on the media and people in the financial sector who wrongly thought that China had become a more free society.

The managing director of China's largest stock brokerage firm and eight other high executives were arrested, although no charges were made published. Perhaps they sold stocks, which now has become illegal. You are only allowed to "buy."

About 200 journalists, other brokers, and regulators have been arrested for allegedly "spreading false rumors and undermining public trust." A respected journalist from *Caijing Magazine*, which we quote often, was forced to issue a groveling confession on state television.

China had the world's biggest stock-index futures market. **But volume has plunged 99%** from June. The government raised margin requirements substantially, reduced the maximum number of positions drastically, and investigates short sellers.

Before last month, speculators could have up to 600 contracts on the index futures. That has been reduced to 10 on a single index future and is designated as abnormal. The China Financial Futures Exchange now labels a position of more than 10 contracts on a single index future as "abnormal trading."

Communism is alive and in full force in China. Never make the mistake of thinking that China is a free society. And that is the biggest obstacle for China. A global recession now would mean a huge plunge in China exports, soaring unemployment, social unrest, and citizen protests in the street, met by increasing oppression from the government. That would create a situation similar to that in Russia, which toppled communism. We expect that in China, it would be much bloodier.

This photo shows a building in China that toppled onto its side. Is it symbolic of what China's economy will do?

In the meantime, governments fearing civil strife resort to military excursions and a show of force. China is doing this now against its neighbors, probably in the hopes that it will distract from the domestic problems. The military buildup in China has been accelerating. In the end, it always comes down to power.

As much as we Americans don't want military buildups in the US, only a strong military can prevent military conflicts. Remember, the huge nuclear ability of the US actually prevented a nuclear war. The weak always become targets and throughout history have been enslaved. We cannot be naïve.

But there are still bulls on China, primarily on Wall Street, because western financial firms depend on doing business in China. Wall Street firms help investment entities world-wide to invest there. They need China's regulators to allow them to do business. One firm was quoted by the UK *Telegraph*'s Evan-Pritchard:

> Morgan Stanley said it remains wary of China in the "short-run" **but is waiting to jump back in if there is a fresh blast of fiscal stimulus.**
>
> That may be exactly what is now happening. Lou Jiwei, the finance minister, said last week that Beijing will pull forward a raft of infrastructure projects planned for next year, launching them later this year instead.
>
> Both credit growth and the money supply are accelerating. Draconian curbs have been imposed on foreign exchange transactions to stop capital flight, easing the way for the central bank to cut lending rates further and inject liquidity by lowering the reserve requirement ratio.
>
> A combined shot of fiscal and monetary stimulus is already in the Chinese pipeline. Yet China has lost so much credibility over the past year that the world may not believe the promise of largesse until the evidence is irrefutable.

This is propaganda. They are "waiting to jump back in?" Not with their own money, of course. Then they quote a party official, the finance minister, who talks about "a raft of infrastructure projects." We saw how effective the "shovel ready" projects were in the US under the current president. On the economic activity charts, you don't even see a pimple for the effect of those.

Then they talk about cutting lending rates. But banks won't lend to anyone because they have doubts about ever getting the money back. It's not a matter of interest rates.

For the past three years we had warned about China. It's much more important than Thailand, which caused a global crisis in 1997, and Russia, which caused the crisis in 1998. The August crisis in China this year caught all of Wall Street by surprise. They should subscribe to our Wellington Letter.

But now the analysts are doubling-down on China. They say this (excerpt from the *Wall Street Journal* on Sept. 9):

> U.S. stocks rose Wednesday, building on gains in Europe and Asia, following signs that **China would do more to stimulate its slowing economy**.

China has thrown everything at this crisis and it didn't help. In fact, it probably made it worse. What all these China bulls don't realize is that this crisis has been brewing for at least the past three years. China finally acted in the summer of 2014 to stimulate after short-term interest rates tripled overnight.

The stimulus was directed to the stock markets. The plan was to create a stock market boom so that the large, over-indebted, and mismanaged SOEs could sell new stock in the market and reduce their debt levels.

That brought a huge speculative stock market boom. It was not natural. Speculators used up to 5:1 leverage. This was done via new pools, similar to the CDO's used by Wall Street for subprime mortgages. That's what gave us the global 2008-2009 crisis. At 5:1 leverage, a 20% decline in the portfolio value will wipe out the investor.

The China stock boom collapsed this August. Most speculators probably lost everything, not just their stocks, but their real estate, their jewelry, their cars…everything. That's what happens when you get a margin call and can't come up with the money.

We remember having lunch with a VP of a major Wall Street firm after the 1987 crash. He told us he was traveling around the country foreclosing on people's houses. We asked if he was in the real estate business, and he explained that the foreclosures were on properties of their customers who had margin accounts and lost everything during the crash. **But according to the margin agreement, they were on the hook with all their assets, including their homes.**

If you have a margin account, try to remember this.

Margin balances in the US, as in China, have made important tops for this cycle. That's always a reliable signal for an approaching bear market.

Amazingly, now the hope on Wall Street is that the China government, which created this crisis, will find the way out of it. When it comes to China, Wall Street is deaf, dumb, and blind. We always wonder if these analysts are saying what they truly believe, or what they are instructed to say.

The big event throwing the world back into recession is the financial crisis in **China**. We warned for the last three years about the deterioration, the financial games private firms played to get loans, the incredibly huge $10 TRILLION in bad loans in the system, the world's highest ratio of debt to GDP, and the fact that the communist government was hiding the true facts. (Read our prescient book, *The Coming China Crisis,* which is still as valid today as when we wrote it three years ago.)

China was publishing 7%+ GDP growth when by all private measures, the private sector was already in recession (contraction) during the past 12 months.

Chinese Premier Li Keqiang, who is also an economist, said this at a speech at the World Economic Forum last week: *"China is not a source of risk but a source of growth for the world,"*

Anyone who believes that should not be investing.

Li Keqiang, said: *"Steps to stabilize the market" have included arresting journalists and other rumor mongers accused by the central government of "destabilizing the market."*

Remarkable! Now we know that 200 journalists caused the immense stock market bubble financed by 5:1 leverage, and the journalists caused the crash of the market.

He said: *"There has been a hard crackdown on hedge funds and other manipulators.*

"Beijing has imposed a series of onerous measures against currency and securities markets derivatives trading. The Chinese government has also put in place controls to help impede financial outflows.

Meanwhile, the state-directed "national team" has spent over $200 billion buying stocks."

Interesting: you stabilize investment markets by arresting journalists. That's a new economic theory. They will probably be teaching that at US universities soon.

We believe that these Draconian measures will not diminish, but increase. The current leadership believes it, and only it, should control the economy. We predict that harsh currency flow controls will be initiated. That will stop the inflow of foreign investments. And that will end the era of prosperity for China.

China will have to depend on its 1 billion poor people to generate economic activity…but they can't. The wealthy will leave in droves.

We warned about the coming China crisis three years ago and it has now become visible for all to see.

CONCLUSION ON THE MARKETS:

The markets will be extremely volatile until year-end. There will be at least 1-2 very sharp declines. A crash, especially in one of the emerging markets, has a good probability.

The major central banks, i.e. US, ECB, China, and Japan now have all the reasons in the world to conduct coordinated interventions to prevent another global meltdown. Central banks and the governments make the rules. They can attempt to do whatever is necessary to stop a crisis once it really gets dangerous. We saw that on Aug. 24, when the DJ collapsed over 1000 points in less than the first 30 minutes of trading. They were able to reduce that loss significantly. But they can't stop reality and major market forces forever.

We are now entering the yearly weak period for the market when financial stress rises because of year-end factors. The next market plunge will force money managers to dump stocks. But liquidity will not be there to sell at reasonable prices. It could be a "blood in the streets" event, which is often a good short-term buying opportunity.

But you have to wait for the technical signals of a bottom. We caught the bottom of the 2008-2009 to the day. Perhaps we can get close again. But you have to fight the urge to buy too early.

China and Japan have serious problems, but the central banks can inject massive amounts into the banking system to prevent a collapse. Remember that China, Japan, and the US have mechanisms that allow governmental entities to buy, either via index futures or ETFs. That is relatively new. They have used those powers, and in a crisis will enhance them.

There is nothing to prevent major central banks to prohibit short selling, or even selling by financial companies, just as China did in August.

The big problem, as we have written for several months, is the emerging markets. They don't have the mechanisms to handle a financial crisis. A selling crisis can also be suspended by stopping all trading for a few hours, or days, as the NYSE did during the China crash on Aug. 24. It was blamed on a "computer glitch."

Europe had an avalanche of sell orders that morning that couldn't be executed. The logical thought was that these orders would go to New York when that market opened. The computer glitch and suspension of trading on the NYSE came just at the right time.

Short term: We could get a very brief, potentially sharp but brief bounce after the Fed meeting. We believe that there would be a high probability that this would be followed by a plunge as money managers take advantage of the rally to raise cash.

Bottom line: Trade lightly. Don't be overexposed. It could get very exciting.

For investors who prefer to sidestep all the volatility and be safe, and are leery of banks and ordinary money market funds (which you should be) we suggest US T-bills (or funds which invest in them) as a safe parking vehicle. They are short term in nature and are the safest instrument in the world, so of course they pay very low interest. But the income is not the point right now. Safety is primary.

There are mutual funds that invest in them exclusively. **Check out the major fund families like Vanguard and American Century among others.**

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THE MIDDLE EAST GETS VERY HOT

About 10 days ago, there were reports of Russian troops appearing in Syria to support its dictator, Assad. Russia's support of Syria has to do with Syria prohibiting a pipeline from the huge oil fields of Qatar to Europe. Right now, Russia basically has a monopoly on supplying Europe with natural gas.

Now we read reports that Iranian troops have also sent troops to help Russian troops support Assad.

Iran is supporting the enemy of the US even before the nuclear agreement has been approved by the US Congress, although that will happen without a doubt. Iran's leader on Sept. 9 once again called the US "the great Satan" and said Israel will not exist in 25 years.

The fact that this agreement didn't even insist on the release of four Americans in the horrible Evin prison in Tehran is evidence of their incompetent negotiating skills.

While Saudi Arabia invades Yemen to fight the rebels, Iran is aiding the extremist rebels in Yemen. Syria simmers on the edge of civil war; there are suddenly millions of alleged Syrian "refugees" breaking into European countries, asking for shelter. Germany has said it would take 800,000.

But no one knows who they are, where they really came from, or if they are terrorists disguised as refugees.

It's great to help the needy, but shouldn't these countries first find out who these people are? ISIS has already issued messages that they will use this mass migration to infiltrate Europe with their own terrorists.

Now US leadership in Washington is offering shelter. The terrorists will be in our midst. Europe will never be the same. The barbarians are at the gates.

Newsmax.com quotes Congressman Peter King from New York, chairman of the Homeland Security Subcommittee, on the president's order to let 10,000 of these people into the US:

> "We do not have the capability to vet these individuals nor will we be able to develop it in the next twelve months.
>
> "The administration is moving forward full speed ahead without the necessary security backbone in place.
>
> "It is vital that we measure our humanitarian beliefs against the security risks of bringing more than 10,000 unknown individuals into the Homeland.
>
> "I oppose this decision. We do not want another Boston Marathon Bombing."

We should ask, why aren't the rich Middle Eastern countries taking these refugees? That walk is much shorter. Where are the offers from Saudi Arabia, Qatar, Abu Dhabi, and Dubai to take these people? This is their neighborhood.

This problem is the result of other nations failing to take care of the problem of ISIS. US policy, as stated from the highest level, is to "contain" not "defeat" ISIS. That murderous band started the flight of people from their villages as they beheaded, crucified, and burned thousands. And now this savagery has produced mass migration of perhaps several million.

Is there anyone in Washington asking, was this the plan of ISIS from the beginning to enable an easy invasion of western nations? As we can see, wars can probably be won without battle ships, tanks, and bombers. And so far, the terrorists are winning their war to establish a global Caliphate. Is there anyone in the western nations to stop this?

As we write this, it was the anniversary of a most infamous day, 9/11/2001. We remember tuning in CNBC that morning. Fund manager Bill Nygren was on the air. The interview was interrupted for news and a video of a plane that had flown into a tower of the World Trade center. Smoke was coming out of the tower.

The news report was that a small plane had hit the tower. It was a clear blue sky. I fly small planes and thought, that can't happen on a clear day. There is something else.

Soon thereafter, a large plane, flying low at high speed, was heading into the Trade Center. Even before it hit, it was clear that this was a terrorist event.

Some time later, the first tower collapsed. Then the second. It was a horror show. Who could have done something so terrible to innocent civilians? We found out later. Most of the terrorists were from Saudi Arabia.

Our thoughts are with the people who died on that fateful day and their families. We should never forget them.

And we should never forget the type of people who did it. Terrorists! Letting thousands of unidentified people from the hotbed of terrorism into the country doesn't seem to be the way to prevent the next terrible terrorist attack. It's government's first responsibility to protect its own citizens. Has that been forgotten?

Wishing you successful investing,

Bert Dohmen and team

P.S. If you want to help your friends and family, refer them to us. We will happily give them the first issue with our compliments. Just send us their email address, and permission to tell them that you thought they might find our WELLINGTON LETTER useful.

Follow Bert Dohmen on Twitter: https://twitter.com/BertDohmen. We post several items of interest each day. Some have links to interviews, charts, etc. It takes less than a minute to register with Twitter and you can get my short messages during the market day.

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7/27/2015: Forbes.com, Bert Dohmen on "The Great 'Fall' of China"
http://www.forbes.com/sites/investor/2015/07/27/the-great-fall-of-china/

7/22/2015: Emerging Markets: THE NEXT CRASH? (chart video)
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7/20/2015: The Gold Plunge 7-20-2015 (chart video)
https://www.youtube.com/watch?v=L8d5j3tTTCE

7/15/2015: Forbes.com, Bert Dohmen on "Stock Market - To Buy or Not To Buy, That Is the Question"
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7/6/2015: Forbes.com, Bert Dohmen on "Greece: After The Vote Comes The Pain"
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6/29/2015: Forbes.com, Bert Dohmen on "Greece: The Solution"
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*We consider the book as a guide to the next crisis. You will see charts and our credit market analysis which can be applied to any scenario. Just go to Amazon.com. And best yet, the price is **only $9.99**.*

HOW TO CONTACT US:

The best way to contact us is via e-mail. Your e-mail will be answered within 24 hours. office@dohmencapital.com
If for any reason you need to call our office, please leave a short but clear message with your name and telephone number.

NOTE

We have had many requests to do more of our own seminars. We would be willing to do that in major cities. If you would like to sponsor a Bert Dohmen seminar, please contact us. We are also considering a two day event in Los Angeles late this year. Watch for news on that.

Bert Dohmen

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