

# Stocks, the Dollar, and Gold! Oh My!

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## How the Directions of the US Dollar Index and Gold Effect Stock Market Returns Over Long Time Periods

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**The stock market is currently moving in a backdrop of DOLLAR DOWN and GOLD UP.** That could change on a dime tomorrow, but fortunately, the table below will guide you pretty much whatever combination pops up in terms of the probable behavior of the stock market given **the DIRECTIONS of the US Dollar Index and Gold.**

I composed a Table (see below) that summarizes all the periods from Bill Clintons big Bull market to the present time as well as a look at the deflationary period of 1966 to 1980 when the stock market finally bottomed before the great Reagan Rally began.

We are currently in the first block in the table below because the dollar is going **DOWN** and gold is going **UP**. That is our market timing set-up right now. There is a large range of possible behaviors given our situation, but there are some interesting conclusions.

**1.If we are indeed entering a period of stagflation, which means sluggish growth of the economy and rising inflation, the stock market (S&P 500) will likely go sideways or down.**

**In the 1970's due to stagflation, the value of the S&P 500 was rising while the inflation adjusted value of those stocks DECLINED**, so the 0.43% is an overstatement of the returns during that period when adjusted for inflation.

**Oh, and it will take a decade or two to come out of a stagflation. If you do NOT use market timing methods and sell the highs and buy the lows based on market timing signals like mine, you may not make anything over a decade or two if the market keeps going UP and DOWN like a yo-yo. A clear reason to subscribe!** You have to know me to believe this fully, but actually I'm not kidding. I'm not allowed to make guarantees of course, since the past may not repeat itself, even though it often does, which is why market timing works quite often.

**2. If this is early in a recovery and the Bulls are right, then the "Early to Mid Bush" scenario may apply and the returns could be similar at 104% over 5 years.** It seems the returns might be more muted, because we've already rallied quite a bit from the March 2009 low.

**3. If we are in fact headed into another leg of the Great Bear market from here, which the Bears contend, then the Late Bush horror show could materialize again with a huge fall in the stock market of over 50%.**

**4. The Late Bush-Early Obama Scenario does not seem likely.** We have just come out of a massive stock market sell-off and, as above, have had a huge rally, so that scenario would not seem to apply.

**5. We are in the "Mid-Obama" period right now, and the returns have been 12.75% so far.**

**6. There is only 12.00% more if we now go back to the April high.** The downside risk could be much greater.

**7. If an economic recovery were to kick in (which it has not despite the pronouncement that "the recession has ended," the rally we have been in could go even higher than the April high.** That seems a stretch considering the structural problems like the housing issue and the level of unemployment.

**8. If we see dollar UP and gold UP, we've got a problem, most likely more PANIC!!! from Europe or who knows where next time!** The stock market will sell off.

**9. If we could just get back to the Clinton-Gingrich (give all the players credit!) tech bubble,** we'd be able to fund our government and make massive amounts of money in stocks again!

See what you can learn from the table below and send me a message via the contact page if you have comments or questions (labeled "Contact Me" on the blue navigation bar). And have a look around the website. There is a lot of material to gain insight from.

## How the Directions of the US Dollar Index and Gold Effect Stock Market Returns Over Long Time Periods

<b>DOLLAR DOWN</b>	<b>GOLD UP</b>		<b>START S&amp;P</b>	<b>FINISH S&amp;P</b>	<b>S&amp;P 500 G/L%</b>		
1970's Stagflation	2/10/1966	3/27/1980	93.83	94.23	0.43		
Early to Mid Bush	10/10/2002	10/15/2007	768.63	1564.74	103.58		
Late Bush	10/15/2007	3/6/2009	1564.74	666.79	-57.39		
Late B-Early O	3/6/2009	4/23/2010	666.79	1219.8	82.94	58.69	<b>for 2 - 4</b>
Mid-Obama	7/1/2010	9/22/2010	1010.91	1139.78	12.75		
<b>WE ARE HERE</b>	9/22/2010						
<b>DOLLAR UP</b>	<b>GOLD DOWN</b>						
Clinton-Gingrich	2/14/1996	3/24/2000	647.93	1552.87	139.67		
<b>DOLLAR UP</b>	<b>GOLD UP</b>						
Early Bush	3/24/2000	10/10/2002	1552.87	768.63	-50.50		
Early Obama	4/23/2010	7/1/2010	1219.8	1010.91	-17.12		
<b>Another Short Term Scenario We've Seen</b>							
	<b>STOCKS</b>	<b>DOLLAR</b>	<b>GOLD</b>				
<b>Panic European Style</b>	<b>DOWN</b>	<b>UP</b>	<b>UP</b>				

**NOTE:** Due to inflation during stagflation, the stock market can actually go UP and the purchasing power of the money behind the stocks can be falling. Real returns can be negative, even while stocks are gradually appearing to rise.

\* SW = Sideways

**Stagflation period:**

<http://www.chartsrus.com/chart.php?image=http://www.sharelynx.com/chartstemp/free/chartind1CRUvoi.php?ticker=FUTDX>

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