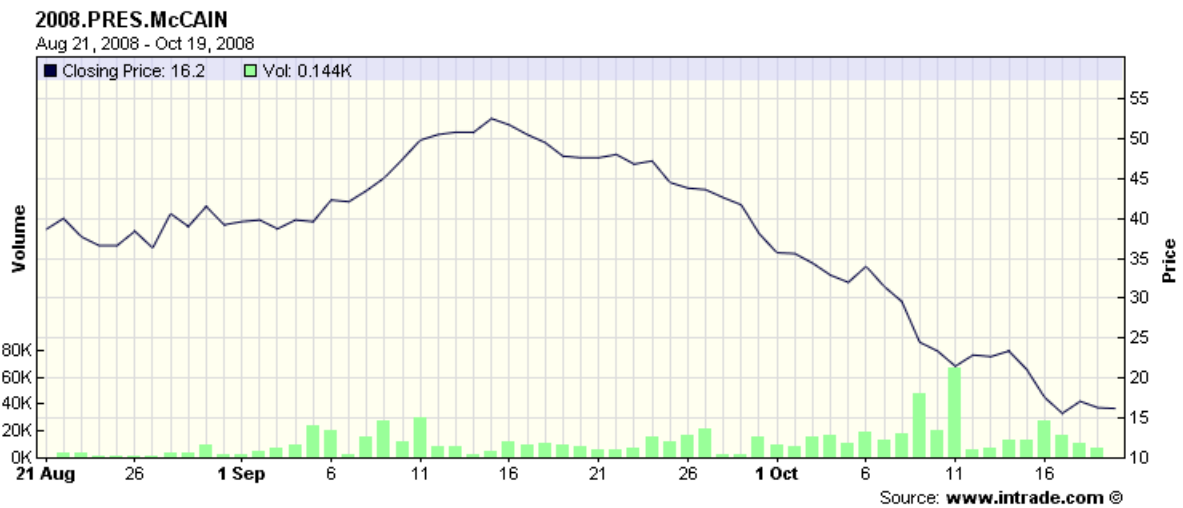
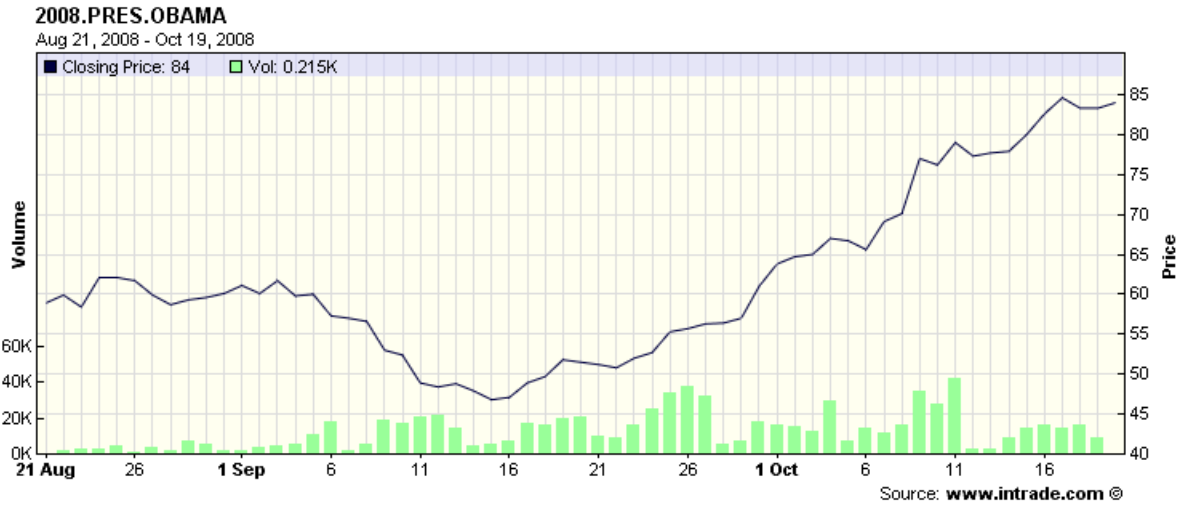


Tipping Point Commentaries

Once Upon A Crash

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Working from the graphs offered in the page before, and with a bug placed on the last graph of stock market activity; we can observe a pretty consistent trend developing with the first two graphs.

Before going further, I should first introduce the sources of this data. The first two charts comes from intrade.com which is a political futures market. This is like a stock exchange of the upcoming election. Traders buy a future for a dollar, and what they get back at the time it comes to maturity (so to speak) is shown by the proportion of the two possible outcomes. The trader will get back 84 cents on the dollar if Obama was elected today (or if the market price froze from this last offer to sell on that side of the trade), or the trader would get back 16 cents on the dollar if McCain was elected today. Traders would lose either way, so over the course of time, they sell their shares to match to the candidate they consider the lesser risk. In this case, Obama is trading heavily at the higher price – less risk but higher reward in a **winner take all** contest.

In the world of statistics, there is a term called correlation. That means when one set of data changes, and its trend is observed in another set of data, they have a marked similarity that can be said to correlate. Before jumping the gun at forecasting, however, it must be observed that statisticians' also warn *correlation is not causation*. This means that no matter how similar the two sets of data are, one does not necessarily influence much less change the other. When we toss in the curve of Wall Street's current tumble, and when we watch the news each day, and when we hear the candidates speak, and all the talk is centered on this last curve; then every appearance of causation seems to rise within our view. This is not to imply that they can pull the Wall Street curve up by force of words or actions – Wall Street is very resistant to that simply through its own emotion. However, it is strongly suggested (and this is demonstrated through similar correlations over the past century) that Wall Street has pulled the political pillars down with it.

McCain's Suspension Bridge to Nowhere

By FRANK RICH

Published: September 27, 2008

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To put these 24 hours in context, you must remember that McCain not only knows little about the economy but that he has not previously expressed any urgency about its meltdown. **It was on Sept. 15** — the day after his former idol Alan Greenspan pronounced the current crisis a “*once-in-a-century*” catastrophe — that McCain reaffirmed for the umpteenth time that the “*fundamentals of our economy are strong.*” As recently as Tuesday he had not yet even read the two-and-a-half-page bailout proposal first circulated by Hank Paulson last weekend. “I have not had a chance to see it in writing,” he explained. (Maybe he was waiting for it to arrive by Western Union instead of PDF.)

The emphasis in bold in this quote is mine. It demonstrates a correlation that is my observation alone (or at least in these pages). That correlation is with the trends in the political futures market where the two candidates become distinguished by the bettors if no other demographic. Wall Street took longer to pitch down, but it seems both destinies were intertwined by then.