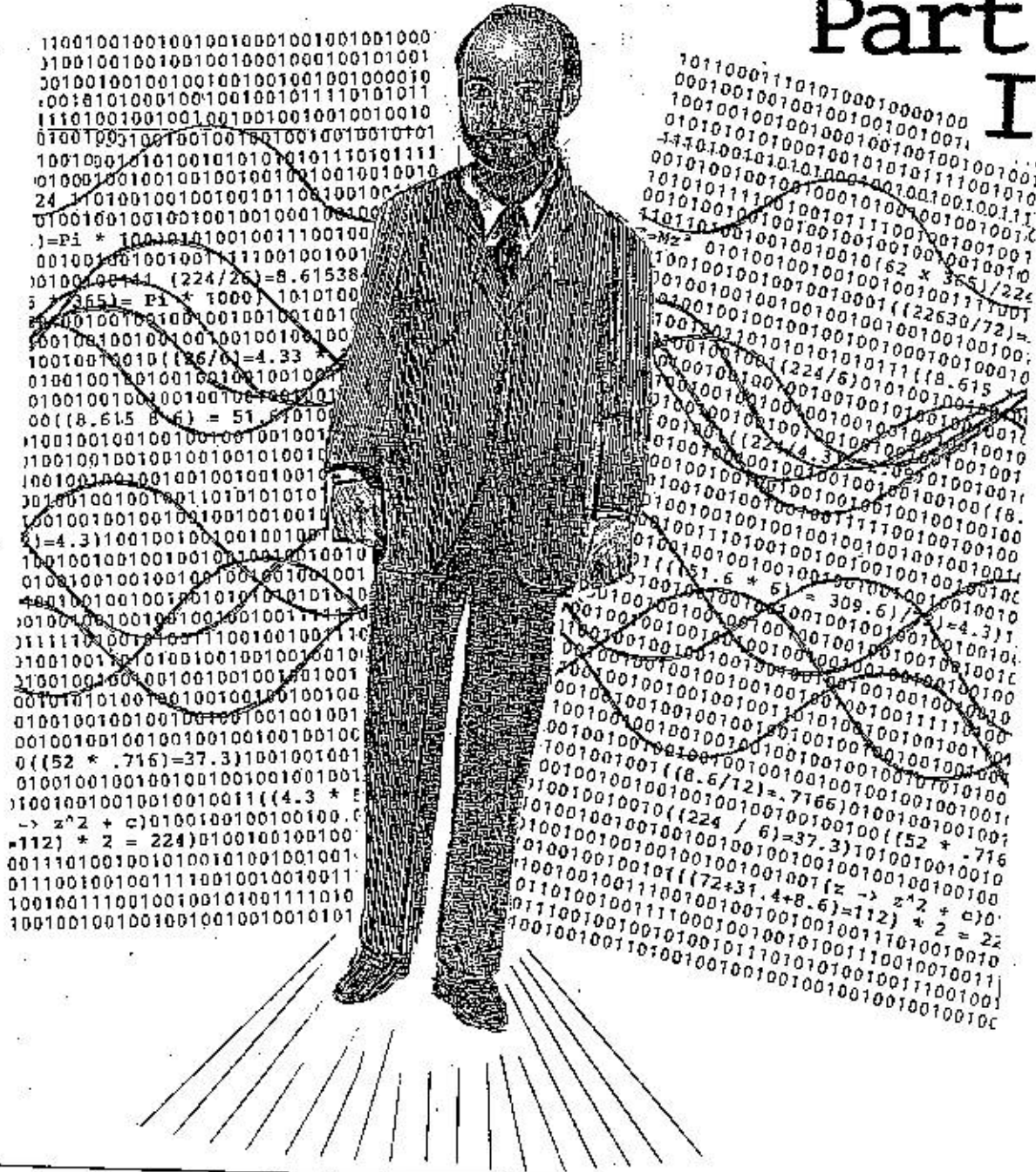


Cycle Theory & The Sixth Dimension Part II

Martin A. Armstrong
former Chairman of Princeton Economics International, Ltd.



ACKNOWLEDGEMENTS

I would like to thank the many people who have been writing from around the world. It is encouraging to know that there are so many people who are interested in uncovering the truth. I have also special thanks for so many providing valuable insight into trends around the world from China, Soviet Republics, South Africa, Brazil, Australian, and India. I believe we can survive the folly of governments even if they refuse to listen. The key is understanding the nature of events, and that allows us to correctly make the decision to be on the opposite side.

I would like to also thank all my old friend and former clients for their support and to know that they have continued to gather information that serves us all in times of crisis.

We are standing on the precipice of a new era in global-social-economics. How we enter this new age is of critical importance. Government is incapable to doing anything for any reform of its own abuse of power is not up for negotiation. We must weather the storm, and to do so we need to understand its nature. Just as the 1930s Great Depression set in motion profound changes that were even manifest in geopolitical confrontations, we have now reached such a crossroads. A debt crisis has its tentacles deeply embedded into every sector right into government. This is the distinction from a mere stock market crash that never alters the economy long-term. We are seriously still over-leveraged and some banks are still trying to be hedge funds and have to speculate to make a profit. That is a key warning sign that the worse is yet to come.

Comments, Suggestions & Questions

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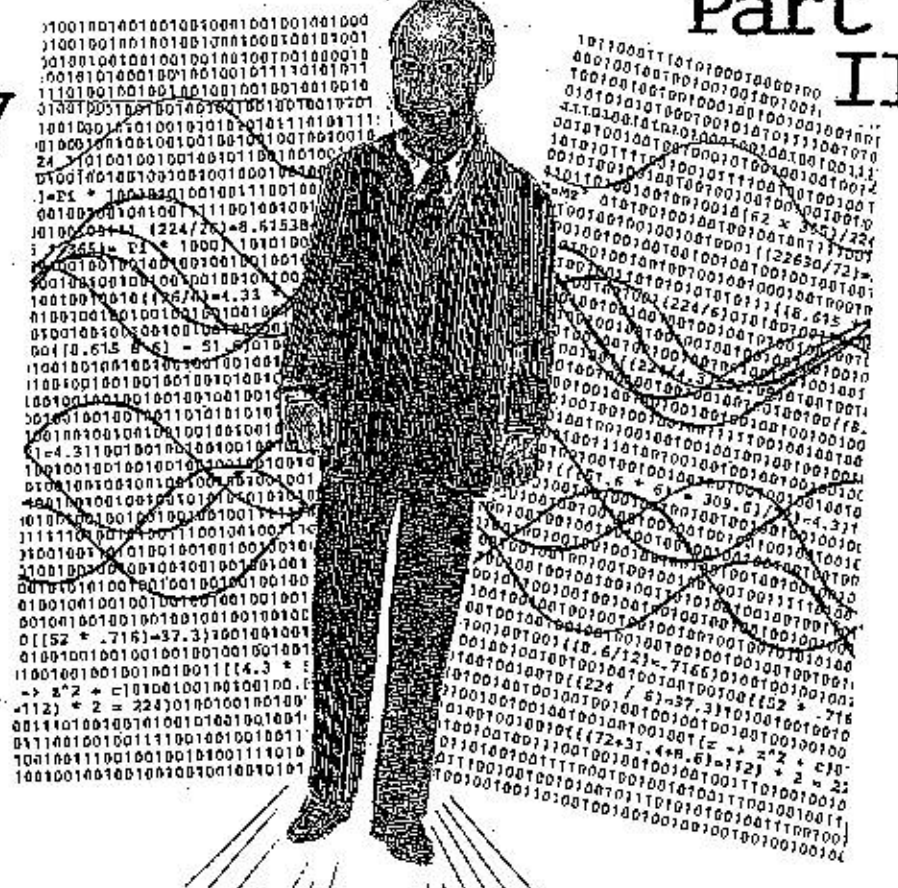
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This Report may be forwarded as you like without charge to individuals or governments around the world. It is provided as a Public Service at this time without cost because of the critical facts that we now faced economically. The contents and designs of the systems are in fact copyrighted. At a future date, a new edition of the 1986 The Greatest Bull Market In History will be released and a new book will soon be published on the model itself - The Geometry of Time. It is vital that we do not forget this is a world economy and the arrogance that any nation can dictate to the world is just insanity. Every nation effects all others no different than if one nation were to pour all its toxic waste into the ocean. Everything is interlinked and solutions are never isolated events.

Cycle Theory & The Sixth Dimension



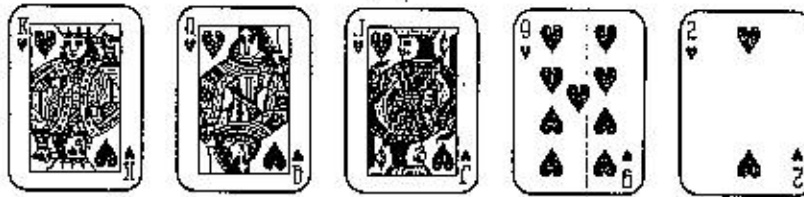
by: Martin A. Armstrong

Former Chairman of Princeton Economics International, Ltd.
and the Foundation For The Study of Cycles

NEO in the film Matrix, is an excellent example of the reality of Cycle Theory. Instead of the world being run by machines who have enslaved all of mankind using their energy to fuel the world being kept in a dream state, we live in a world in which we are ignorant of how it works and primitive in our thinking of cause and effect. Once you see the cyclical nature that is how everything moves and energy itself is transmitted from one medium to the next, you become like the character Neo. Suddenly you see not the image of the world, but you see behind the image and the driving forces are everywhere. While the Commodity Futures Trading Commission saw me not as Neo per se, but more like Darth Vader capable of manipulating the world economy with a single thought, their very harrassment of Princeton Economics illustrated their own stupidity. Their thinking process of reducing everything to a single cause and effect, indeed shows that for as much as we have advanced, we are still running around wearing just diapers and chucking spears.

What I discovered regarding Pi and the 8.6 year cycle, was something incredibly important. This meant that TIME was not the exception, but was subject to geometry. This meant everything we think we know, must be re-examined. This effects politics for politicians get re-elected by pretending they are the solution, but if they are primitive and try to reduce it to a single cause, they will screw it up every single time. They will effect every person's life, create war, and have no sense of even when a drought will hit.

If the sun has a 300 year cycle that causes its energy output to rise and fall, then man did not create global warming and this is a natural event just as the rivers were frozen during the Revolution at the nadir and we are finishing the peak currently. Cleaning our environment makes sense from a health perspective, but the President wants to gather scientists to figure out a way if we can reverse the trend. We are like ancient doctors who believe in "bleeding" the patient to get the disease out. If they died, it was because we did not "bleed" them soon enough.



Cycles exist in everything, and we have recognized them in different forms. For example, the concept of "luck" is truly just an expression of cycles. We can take a deck of cards and calculate the probability of drawing a king out of a fresh deck. If the first card is a two, we can now recalculate the probability. The next card we draw is a nine. We again recalculate the "odds" that the next card would be a king. We all know that there is no guarantee that even as the "odds" increase in favor, the king could, be and often is, the very last card. What also appears we may call "luck" that is with us or not. Some will call it being "hot" where the cards are coming their way. This is a cycle.

You would be surprised how cycles may be far more understood in some industries and not others. Atlantic City in New Jersey is the cheap version of Vegas. I cannot help seeing cycles everywhere. I was there with a group of friends. I am not a big card or dice player. But I did notice the cycles in roulette. I noticed that was why the house routinely alternate their dealers. It is to break the cycles.

I started to write each of the numbers down at a roulette wheel. I immediately saw there were cycles. Some numbers never came up while others would re-appear. I started to play and I won a few rounds. Suddenly, two guys in dark suits came over and asked me my name. They said the house recognized me as a "player" and I told them I was there just for fun. They didn't believe me. So the logical thing to do was stop. I was making them very nervous.

Just as Mandelbrot saw order hidden inside what seemed to be randomness, no matter what the odds are, everything will devolve into a cyclical state. So the term "Lady Luck" is a throw back to the Greeks going to the temple of Neptune to pray that

he not "mess" with them on a voyage. It was praying to the Roman goddess *Fortuna* not to change the course of their ship with her rudder. Cycles override probability. So our world of statistical analysis can be neatly calculated, but that really means nothing for there is a mysterious force working in the background that dictates the outcome of the wheel of fortune.

While the first **Three Dimensions** are the boiler-plate **amplitude, width, and the depth** of a market (**depth = volume**), the **Fourth Dimension** is **Time**. The **Fifth Dimension** is the fractal dimension whereby **self-referral** perpetuates through the course of all levels of **Time**.

It is the **Sixth Dimension** to this true complexity that illustrates the concentration of **capital** that bothers the **Marxists**. Each individual market and economy has its own cyclical frequencies. It is the **correlation** of global interaction that causes capital to do what **Herbert Hoover** mentioned in his great memoirs speaking of the **Currency Crisis of 1931**.

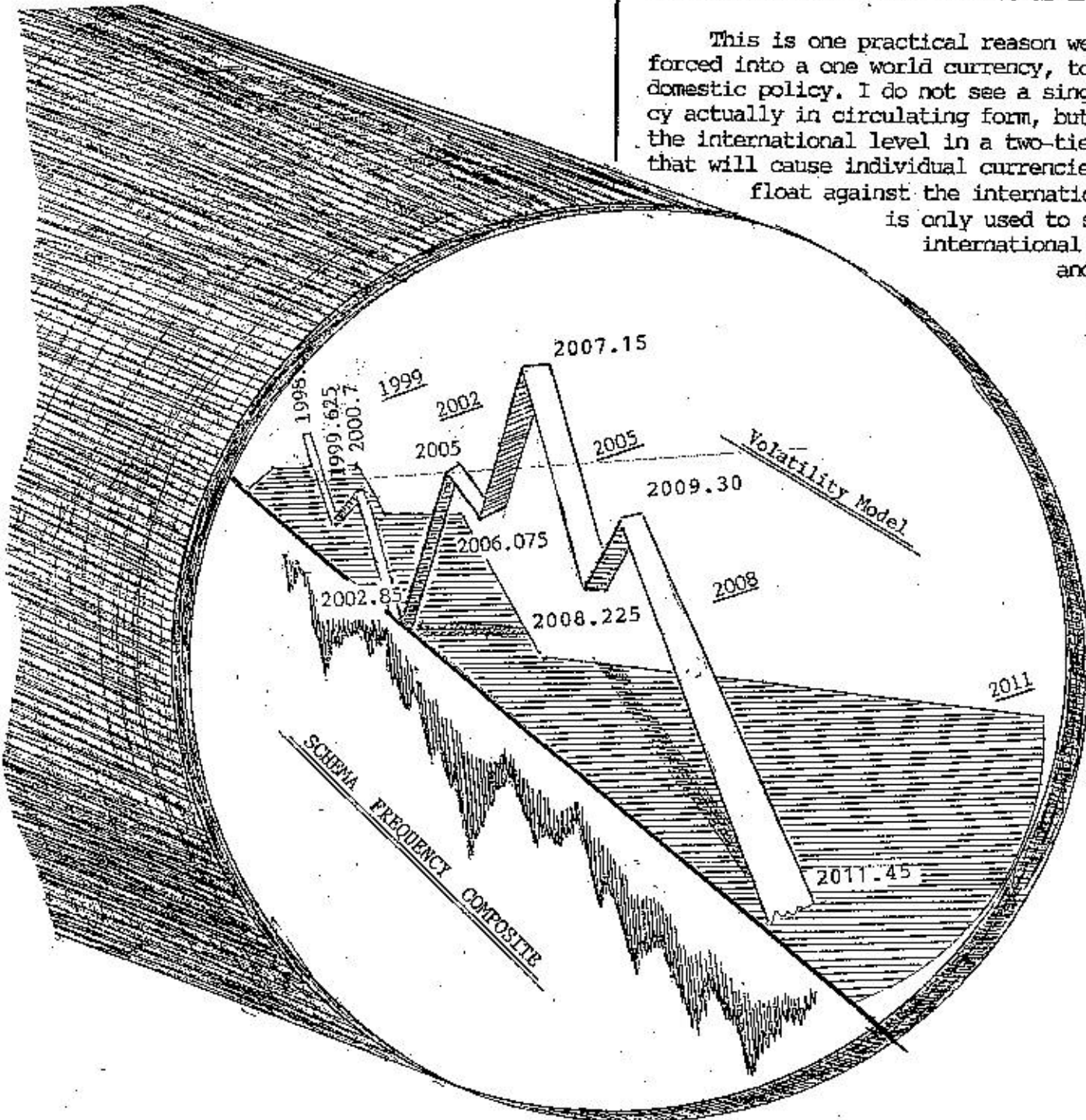
"Capital acted like a loose cannon on the deck in the middle of a torrent rushing from one currency to the next."

Capital rushes around the world from one nation to another. Within that nation, it will then concentrate into a particular sector as we saw in 2000 for the **Dot.Com Boom**. When it concentrates in a sector, those individuals become rich. The **Marxists** only see the **Bill Gates**, not the capital flows that caused him to become rich or **Microsoft** to succeed. We see what we want to see, and like the medieval doctor who assumes the disease is in the very blood, we start to bleed the economy, and if we kill it, we claim we did not start it soon enough. We have no interest in understanding what is going on because it may mean a whole new political system is honestly required.

While the **Seventh Dimension** is the volatility measuring the rush of capital in and out, the **Eighth Dimension** is the pattern projections. Here is where we find a variety of methods of trying to predict the next movement be it **Elliott Wave**, **Technical Analysis**, or **Gann analysis**. None of these can do what **Cyclical Analysis** is all about. Here we are concerned not with patterns or even high or lows. **Cyclical Analysis** is the study of the flow of energy, and is thus the true discovery of turning points and not specific highs of lows.

Like light that travels within a bound electromagnetic field, I have found that the same structure exists in cycles. These are bound **Dimensions** within a field that cannot be separated. There is a natural **contango** that appears at the surface as complexity, yet each is inter-dependent and one reaction creates a ripple effect throughout the whole structure. So we cannot isolate just the United States. If we just print money to be concerned about domestic issues, we export inflation worldwide causing a complex interaction that comes back to bite us in the ass.

This is one practical reason we will be forced into a one world currency, to isolate domestic policy. I do not see a single currency actually in circulating form, but only at the international level in a two-tier form that will cause individual currencies to still float against the international that is only used to settle international accounts and trade.



It is truly the **Sixth Dimension** of this Complexity that provides the **Correlation** of **Cyclical Perspective** showing that **TIME** itself is not merely subject to geometry, but that is the very bound fields of this complexity that creates the interaction on such a global scale, it is another verification of **Chaos Theory** where the slightest amount of change in one variable, can create an entirely different outcome as it ripples through the fractal structure.

TIME flows as a constant, but its effects are measured in cycles. The mere fact that **Pi** exists in **TIME**, demonstrates that there is a curve to the events, not a simple linear progression.

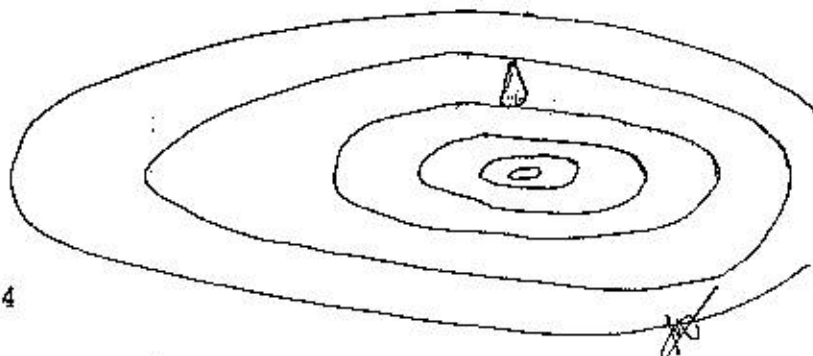
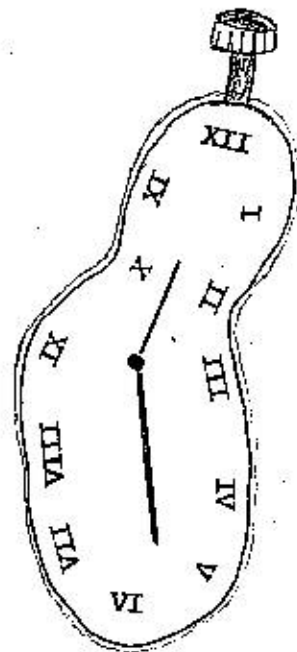
It is not dissimilar to what we have learned about a rain forest. There are so many species of plant and animal living within a delicate balance each interrelated to the other in a scale of predator to victim often reflected in the image of the one animal bigger than another, eats a smaller one, and as it swallows its prey, the next bigger animal comes and swallows it. This is fractal up and down the scale.

Our entire existence is like that rain forest. Each component lives off of another. So what happens is very clear, remove one species and we end up with a ripple effect that runs through the entire system.

Here we are with **Marxists** lacking any comprehension of what the hell they are messing with. They are fixated upon one individual making more than another, and see this as unjust and must be stopped. What if we took that theory to the rain forest? Do we begin to kill one animal because it eats another and we pronounce that is unjust? We would soon destroy the entire environment with that sort of thinking.

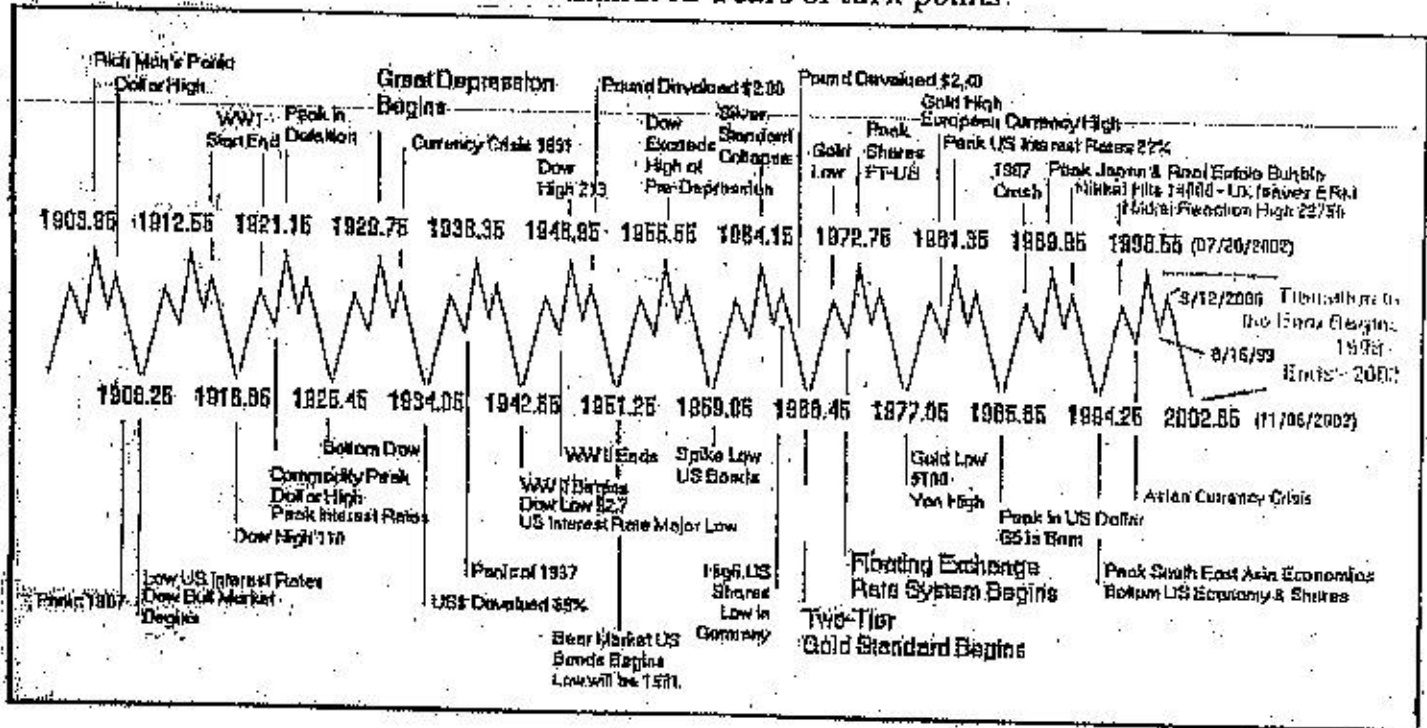
We have pronounced the way everything should work in an ideal world, but we have not bothered to even understand why things work the way they do. We can no more start passing laws to criminalize what we do not understand just so politicians can pretend they have done something to brag for re-election.

TIME flows forward from what I can determine. Perhaps the day will come where **Time Travel** will be proven. But until that day appears, I will assume that it only flows in one direction. However, its effect is **Cyclical** in nature. This is what we must understand. The pattern analysis does not get us to a new world of comprehension. Understanding the inter-relatedness of simply everything around us, does open a whole new world of exploration. It is this **Sixth Dimension** that in the essence of complexity, wrapped up in an enigma that remains **Time** itself. If I can spark a new field of exploration so I am not a lone voice in the wilderness, then I would be satisfied with that inscription upon my epitaph.



Economic Confidence Model

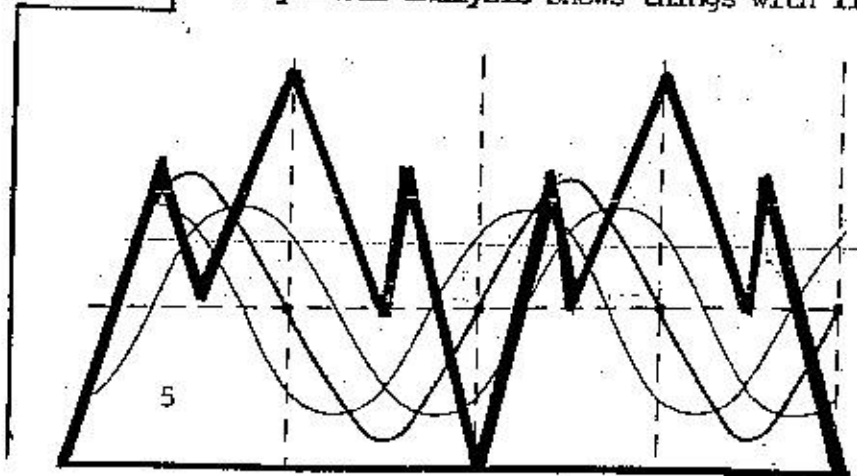
One Hundred Years of turn points.



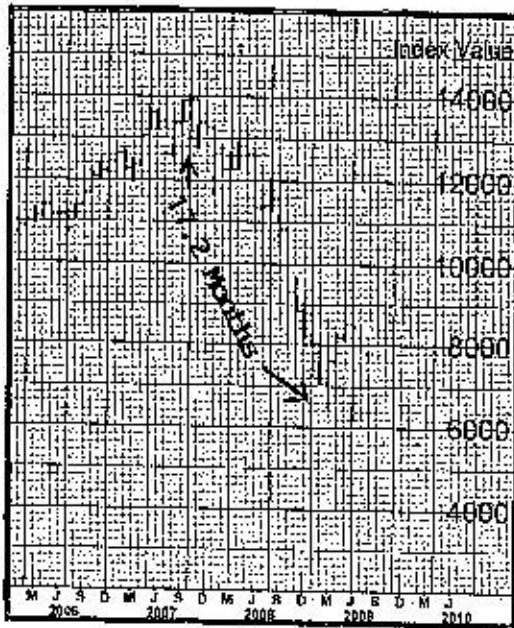
Above is an illustration of 100 years or so of the fundamental events that took place at the turning points on the **Economic Confidence Model**. We can see that this is by far not a model of just stock prices. It is the global frequency that dominates and permeates everything around us.

The **Sixth Dimension** is thus a true world of complexity. Each and every market and economy as well as natural events, all have their own unique frequency. Earthquakes take place in connection with others and are even effected by prolonged periods of rain and drought. It was the San Francisco earthquake in 1906 that set in motion the Panic of 1907 due to cash flow problems between east and west, and that led to the senate hearings and the creation of the Federal Reserve in 1913. It is this complex interaction that creates economic trends. It was the 7 year drought (Dust Bowl) in the 1930s that forced the farmers to become skilled labor and transformed America into what it became. In 1900, 40% of Americans were still farmers and that was reduced to 3% by 1980. This made America rich because of the Dust Bowl.

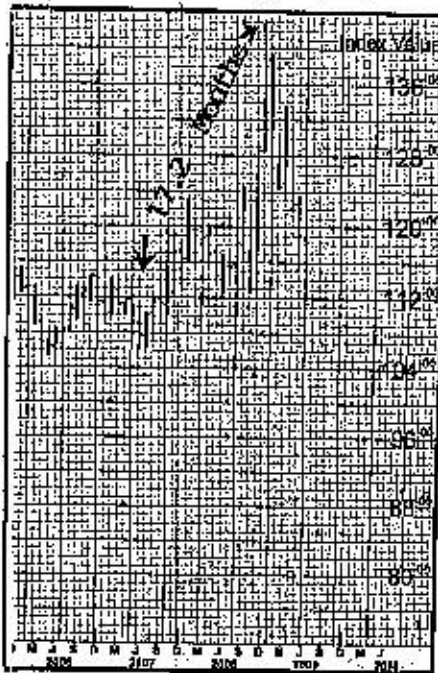
Behind the **Economic Confidence Model** stands everything in the world from man to nature. What we are looking for in the correlation of individual markets or events with this model, is to delineate **TIME** itself. What I am about to illustrate is how the individual cyclical frequency of the various phenomena become over-powered by the major **Economic Confidence Model** and thus they will abandon their own individual unique frequency and what will suddenly appear, is the 8.6 frequency that will dominate for the major turning points. This is just what took place going into March 2009. It is a normal event and provides further proof of the overall structural design. Trying to use pattern analysis does not reveal trends, only the **cyclical analysis** shows things with **Time**.



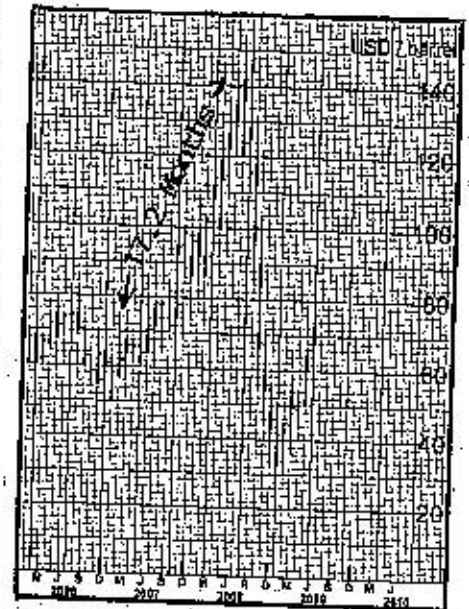
Dow Jones Industrials



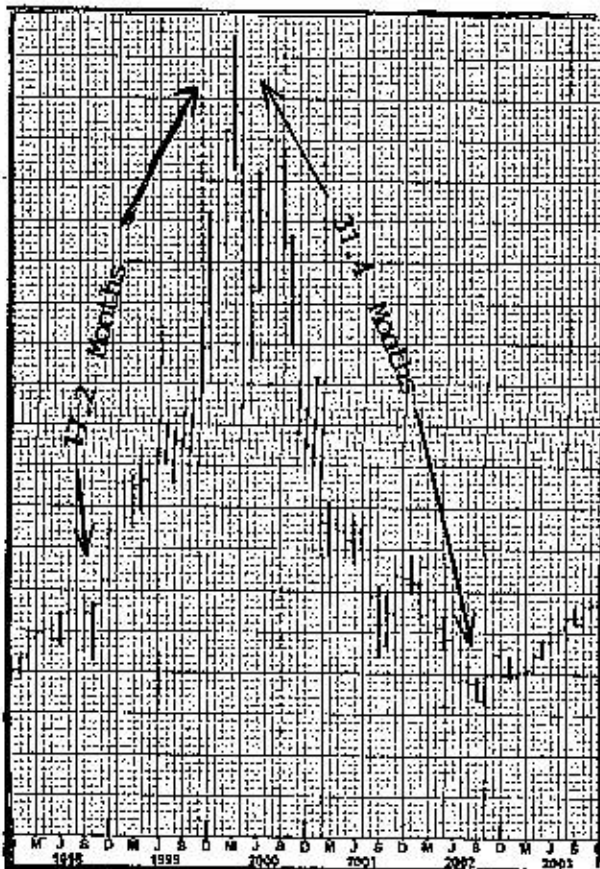
30-Year Treasury Bonds



Crude Oil



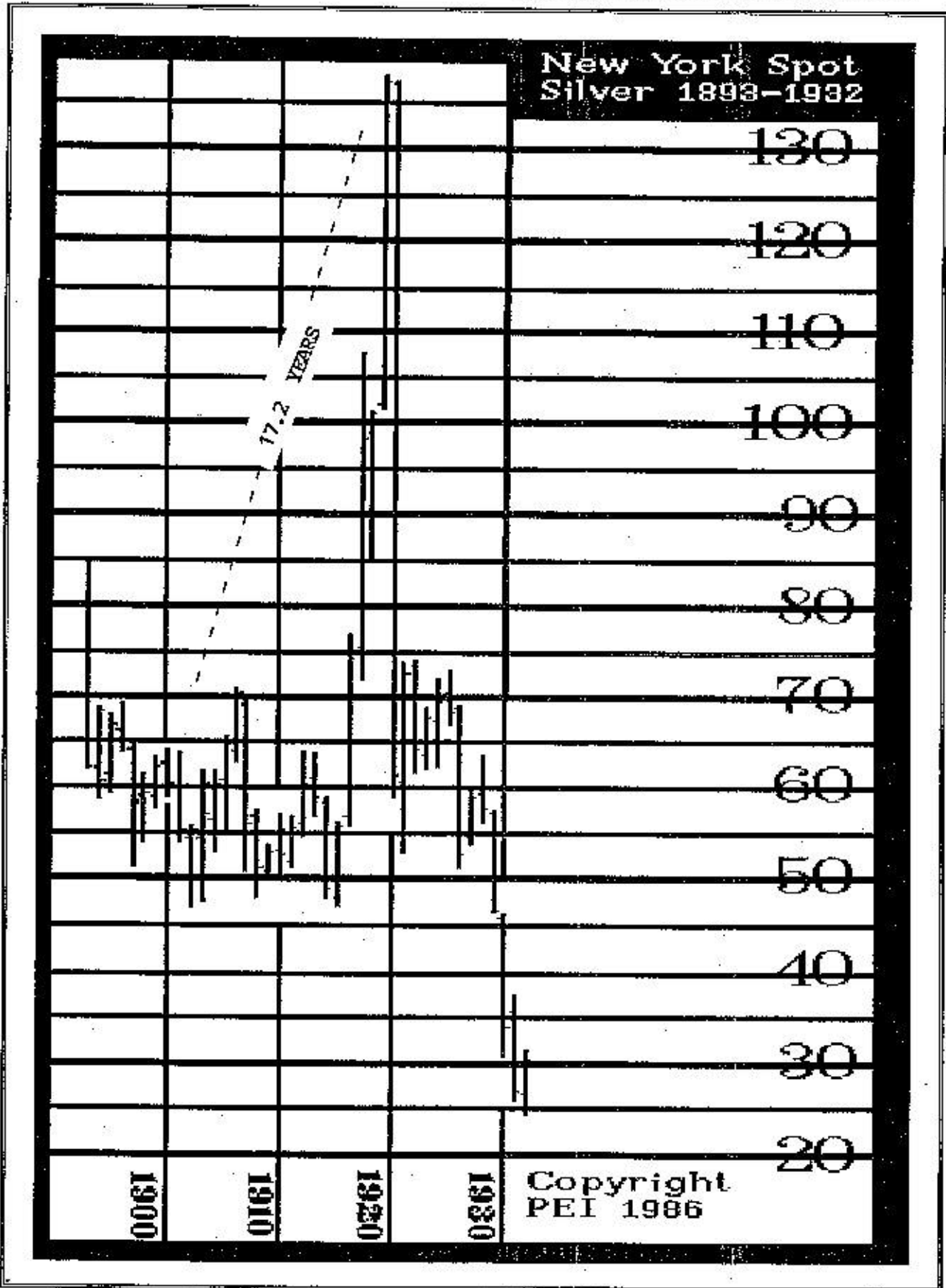
NASDAQ 100



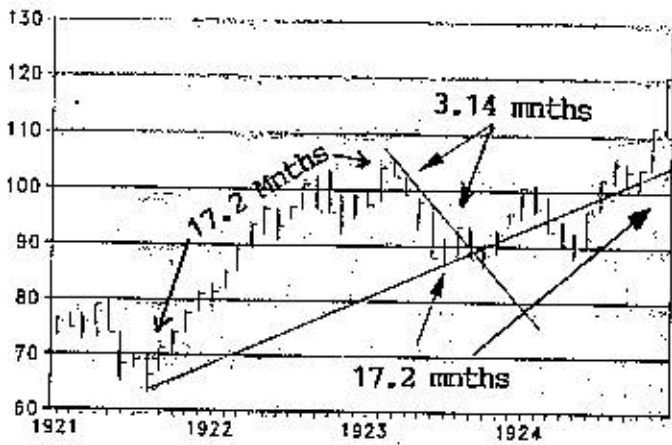
Here I have provided just 4 charts showing the Dow Jones Industrials with the recent 17.2 month drop (8.6×2), the same 17.2 months also appeared in the rally for the 30 year bonds that constituted the "Flight To Quality" and Crude Oil showing a 17.2 month rally from about \$45 up to the near \$150 level, that Buffett had bought the high and Goldman Sachs was claiming oil was going to \$300. Well so much for the best and the brightest.

This is contrasted with the 2000 NASDAQ bubble top in the Dot.COM boom. Notice here we had a perfect 17.2 month rally into the high, with the PI cycle decline into the perfect 31.4 month drop.

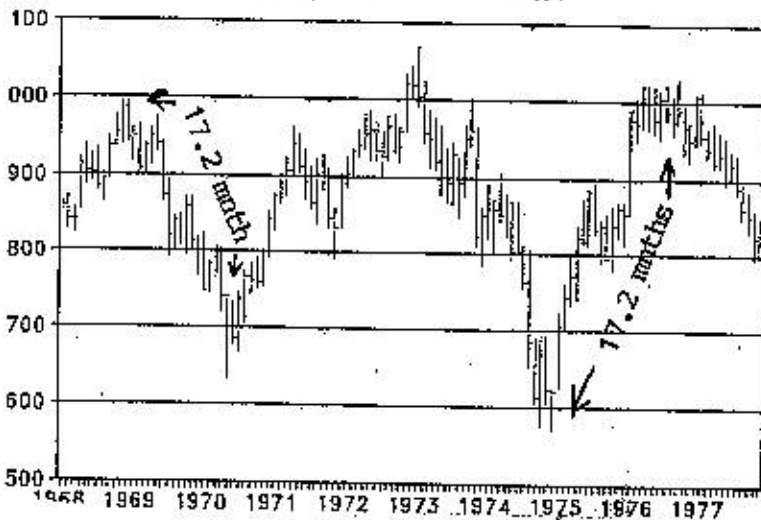
All four of these charts show that the 8.6 year frequency was thus absorbed from the major Economic Confidence Model at the major turning points that over-powered each individual market and its unique frequency. This is what I mean by the Correlation of Cyclical Perspective that whereby the perspective of the entire global landscape correlates with the Economic Confidence Model and then is absorbed as it becomes the "hot" market attracting capital concentration and thus we end up with the Correlation of the Cyclical Convergence - the final blending of the "hot" concentration of capital with the influence of the Economic Confidence Model.



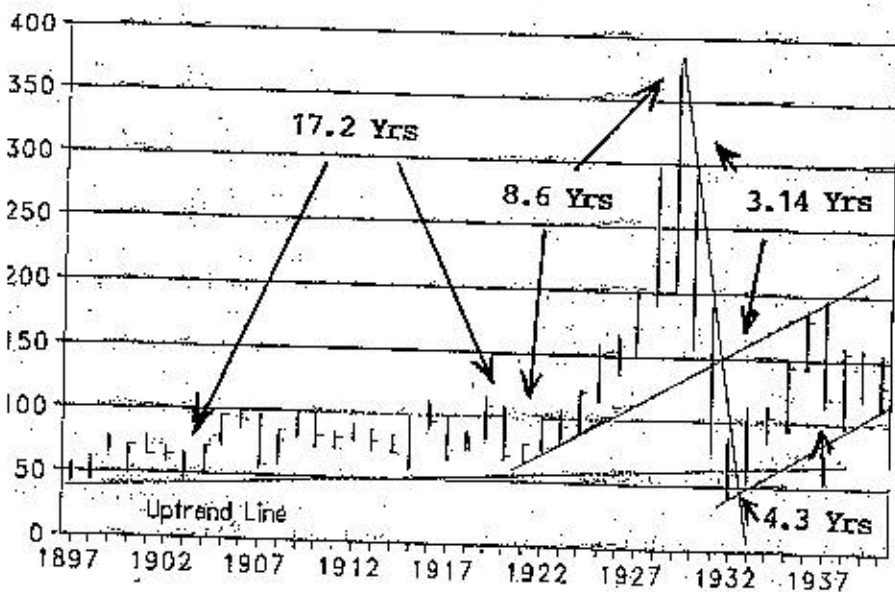
Dow Jones Industrials
Monthly: Jan. 1921 - Dec. 1924



Dow Jones Industrials
Monthly: Jan. 1968 - Dec. 1977



Dow Jones Industrial Average
Yearly: 1897-1940



Because time unfolds in a fractal manner scaled through levels, as we rise to the very highest levels of yearly activity, we can see tidal waves of events coming in slow motion. This is how we could do long-term forecasts through correlations of the Sixth Dimension that opened up the future like never before.

We can see in every market the 8.6 year frequency will blend into the market when it is lining up with the global Economic Confidence Model. This creates a vivid and most spectacular Sixth Dimension of interaction illustrating the same degree of complexity that computers were able to sort out and see hidden order within what once appeared to be just random.

I have tracked this through TIME itself. I have found it to appear in natural cycles of earthquakes, weather, and politics. The rise and fall of nations has in fact even conformed with this degree of complexity. It is there, once we are trained to see it.

Capital Concentration appeared yearly in silver when the commodities all lined up for the major historical high in 1919. They crashed and continued lower into 1932. The Dow Jones Industrials came in for the next concentration of capital causing the Roaring '20s, but that was neither present in the commodities that peaked in 1919 nor in the railroads that ended their era of capital concentration with the Panic of 1907.

Each and every sector has its turn. What we are looking at is the concentration of capital that Marx hated so much among individuals, takes place at the sectorial and national levels as well. This is the very essence of our human interaction. It is a herd state of mind.

This blending of the 8.6 year frequency with each and every market at the proper time displays the true complexity that lies hidden beneath. You can also catch a glimpse, that without the aid of very sophisticated models, it is difficult to predict the outcome unless we can correlate the entire world. Therein lies the answers to our future. It is about time we start to pay attention.

While I lack the resources here compelled to write on a typewriter in 1960's technology, perhaps what I have illustrated here will help you to see that the world we live within is a blend of amazing complexity. Chaos Theory has opened the eyes of many to the fascination of natural events. This is the next step.

Once you see the interaction and the truly amazing correlations that surround everything, you will see that we are indeed just waking up from a very long primitive dream. It is very much like the plot of the MATRIX, but this is real. Instead of machines feeding our brains with the false image of a fake world, it has been government perpetuating the myth that we need them to manage our future, for only they have to power. This to me is no different from medieval days when the Bible could only be read by clergy, for only they were trained to read the word of God.

We have to wake up from this nightmare of surrendering our hopes, dreams, and future to the will of the political state. If we truly did live in a free state, then the individual would be free to also choose to contribute by taxes.

The world that the Founders of the United States tried to create, was real liberty, not this fake stuff. Direct taxes were forbidden directly in the Constitution. Thanks to Karl Marx, the Republicans who then called themselves "Progressive" as the Democrats today, amended the Constitution installing direct taxation and also Prohibition. They would dictate we had no right of political dissent, not the right to drink a glass of wine because they deemed it to be immoral. One must suppose that had they existed at the time of Christ, there would be no hope of Christianity for all of the twelve apostles would have been locked up for drinking at the Last Supper.

A real true sense of liberty was where a man was free to do as he liked as long as it did not harm another. He was to be sovereign in his own liberty and person. Herbert Spencer wrote the very essence of this argument when he was editor of The Economist in 1851 that he entitled "The Right to Ignore the State."

Spencer wrote: "As a corollary to the proposition that all institutions must be subordinated to the law of equal freedom, we cannot choose by admit the right of the citizen to adopt a condition of voluntary outlawry." The term "outlaw" truly meant that he was exempt from the protection of law.

Spencer continued: "If every man has freedom to do all that he wills, provided he infringes not the equal freedom of any other man, then he is free to drop connection with the state - to relinquish its protection, and to refuse paying towards its support. It is self-evident that in so behaving he in no way trenches upon the liberty of others; for his position is a passive one; and whilst passive he cannot become an aggressor."

What Spencer did in this amazing and brilliant article, was to hit it directly like a nail on the head. We are no more a free people today as was the case in many ancient times. What Karl Marx did to all of mankind, was to set us back destroying everything that the Enlightenment was all about. He could not see past his personal hatred of the rich, that he was altering the very core structure of how everything was bound together.

Freedom is not restraint upon one person because of creed, color, or wealth. The true essence of liberty is far from what we are pretending it to be today.

Democracy is a Greek work and is thus comprised of "demos" meaning people and "kratos" meaning to rule. In Athens, the concept of government and liberty was not at all what we have today. The legislature was composed of all adult males who met in union as a body of the people. Women and slaves did not participate, because they were "represented" by the adult male of the family like a senator represents a state. Some of the day-to-day management was the executive function, the bureaucrats. These positions were elected, while some were assigned by lot. ALL such bureaucrats were fully responsible to the assembly of the people and there was no such thing as any immunity. What we have today, we retained the tyranny with immunity against which we had a revolution. The assembly of the people thus sat in judgment over the bureaucrats and possessed at that moment, the executive supervision powers, judicial powers, and the legislative powers to create laws that was withheld from the bureaucrats.

Even if we look at the rival to Athens the military state of Sparta, the government structure was built around a king, but a king who was nothing like the tyrants of

England. In Sparta, there was a senate of 30 that was in the 5th Century BC, a military type oligarchy. This is what prevented any unified joining of the Greeks, for this was in stark and bold contrast to the assembly of the people in Athens.

Nevertheless, there were 5 elected ephors who were the highest Spartan magistrates who with the king, formed the executive branch or the bureaucrats. This structure seems to have gone back to about 754BC and may have been then created by Lycurgus.

The ephors (English translation), were in fact elected annually and every male citizen was eligible. They took an oath of office on a monthly basis demonstrating that the office was not to be abused. The power of these ephors we can only lament does not exist today. They had the ultimate power to even arrest, imprison and participate in the trial of a king himself. So you see, there was still a check against the entire system that laid in the hands of the common people.

Sparta also had a council of elders that was called "gerousia" or "apella" meaning the assembly. Chilon was perhaps the most famous ephor and was considered one of the 7 wise men of Greece.

The Romans revolted against their king in 509BC and at first the state was ruled by the powerful oligarchy. The common people demanded a say in government, and got it. The office of "tribune" was created with much the same powers as the ephor. The tribune could prosecute any senator, and was thus the check against the tyranny. Yet the elections became corrupt and eventually the Emperor after the fall of the Republic assumed this power of the "tribune" in a pretense that he was defending the people against the senate.

Our system of government has devolved back into a state of tyranny. Those who are elected have merged with the bureaucrats and no longer defend the people against the executive or the judicial branch. Instead of tribunes and ephors who can bring to justice the corrupt, they have claimed immunity from prosecution. So we are caught in a matrix where the state has once again assume the powers to do as it pleases, and we are but slaves to the will of the state. The battle between Republicans and Democrats is who will dictate and gather the spoils of raw power.

As long as the state assumes control of the economy and believes it has the raw power to manipulate it at will, we are just screwed. Instead of learning from the past to progress toward a new age in the future of modern Enlightenment, we are doomed to repeat the historical mistakes of the past.

Once we understand the cyclical nature of the world we live in, we will stop this insanity of blaming one person or group and pretend all is well until the next disaster.

We must end the financial oligarchy that has assumed control of the political state and holds that by the fact that the state is addicted to borrowing money, and believes it cannot maintain power without them. So they do as they like. Everyone will look the other way. The prosecutors will continue to prosecute their competitors to pretend they are doing something for the people when they use the criminal law for protectionism.

Government has mischaracterize "Free Trade" and allowed it to be distorted into some sort of authority to export jobs. On this subject, history is loud and clear. Trade became the alternative to war. States increased their wealth through war whereby their confiscated all wealth and sold the civilians into slavery.

Trade truly emerged as a major economic means of increasing the national wealth in North Africa. The entire Punic Wars between Rome and Carthage are indicative of this real new means of acquiring wealth. Even after Rome soundly defeated Carthage, they rose again because of trade. The first war (264-241 BC) was fought to control Sicily and Corsica. To defeat Carthage, the Romans had to create a navy and finally with a fleet of 200 ships, they compelled Carthage to yield. It was the Second Punic War when Carthage gained land in Spain and Hannibal renewed the war and by land invaded Italy from the north. Yet Rome prevailed and the famous Scipio took the war to Carthage. Scipio defeated Hannibal, and demanded an indemnity and the surrender of their entire fleet (218-201BC).

But it was TRADE that reestablished the national wealth of Carthage. The Third Punic War (149-146) amazingly 51.6 years from the defeat in 201BC. The sheer ability of TRADE

to now rebuild the economy was an example to all nations. This created the envy of Rome's imitating merchant class who could not yet compete in international trade. It was this envy that sparked the Third Punic War. The terms of the surrender said it all. There was to be no mercy.

Of the city population that exceeded 250,000 at the start of the war, less than 50,000 people remained alive in Carthage. The survivors were all sold into slavery. The city was razed and the territory reduced to only a Roman province. The death toll was so massive because the city was actually taken in a huge battle moving from house to house until the Romans reached the citadel. The Romans had imposed a demand to avoid war that was just so unacceptable, the only choice was truly a full scale battle to the death. The Romans demanded that everyone in Carthage must emigrate to some inland site, where they could never again engage in commerce by sea. Carthage rejected the proposal, and withstood a 2 year siege until their final defeat. This Third Punic War, was in fact a real live trade war.

Yet here we are more than 2,000 years later, and we still have this debate over the right or wrong of Free Trade. Just as Marx could not understand that the concentration of capital is the economic engine of progress just as Carthage was able to rise in just one 51.6 year cycle (6 waves of 8.6 years), trade has been a greatly misunderstood necessity.

Trade became the alternative to war, for it showed that a nation could prosper and it could result in an increase in the living standards of its people, whereas war was no different than a robber who does not want to work believes it is easier to stick you up than to develop skills.

Because we live in a constantly changing dynamic world where nothing is stagnant for long, we misunderstand the progress of man and that the lower the skilled labor, the greater the cry for protectionism. They see law as an answer to block cheaper goods from overseas and point to their loss of jobs, but they ignore the fact that they are consuming a greater proportion of the people's wealth than is justified. This is made worse by the political corruption and the excessive level of taxation that increases the cost of that labor and then blames the greed of employers for the loss of jobs with no recognition of their own impact through excessive taxation that reduces international competition.

The key to furthering national wealth is practical education, that is neglected. Under the theories of the anti-Free Trade segment, if they had their way, all progress would cease. They cannot see, as was the problem with Marx, that as technology indeed advances, so must the skills of labor.

In 1900, about 40% of the American work force were farmers. This dropped to 3% by 1980. Manufacture, stangely enough, remained virtually unchanged just under 25%. It was the rise in service industry type jobs that rose from about 25% to over 40%. This shows two critical points.

- (1) the labor unions defeated the rise or expansion in manufacture as did the rise in Marxist views of taxation;
- (2) the rise in the service sector was both a reflection in the advance of brain power required in labor, but also the huge increase in the size of government both state and federal.

Marxism thus retarded the economic future far more than most suspect, and it has sealed our fate in trying to get out of this mess. When government is a vast part of the waste and the problem, it is like trying to now convince a robber pointing a gun in your face that he should not have a gun. Good luck!

The Sixth Dimension of Sheer Complexity

What we are looking at is a dynamic and complex world where we have to step back and look at the interactions on a global scale. We can see the Economic Confidence Model had worked quite amazingly during ancient times as it has in modern times.

What we are still ignorant of even now, is this vast new world of TIME that truly exists just on the horizon. If we can just make it there before the politicians wipe us out with their self-interest, we will see an exciting threshold to finally resume our age of Enlightenment that was so desperately interrupted by Karl Marx who economically has set us back into the stone age.

There is a world of complex hidden order waiting and this will be a real Event Horizon if we just open our eyes and look unbiased for once. This is our posterity that is on the line.