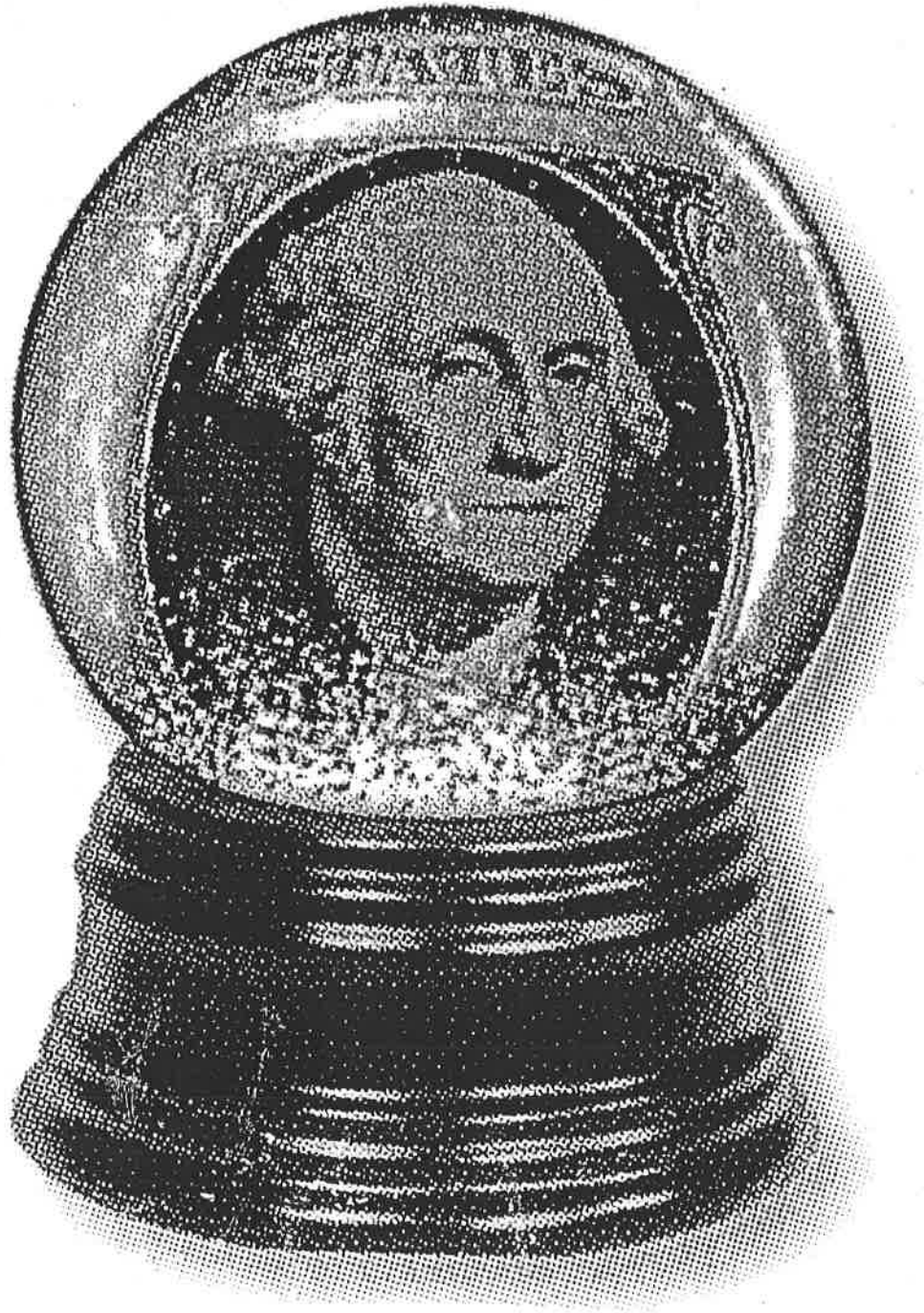


Armstrong Economics 阿姆斯特朗 经济

Forecasting the World



Show Me the Money

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

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A C K N O W L E D G E M E N T S

I would like to thank all the former employees, associates, sources, and contacts for their ongoing support and efforts to contribute to the writings I have been able to continue through their great efforts. I would also like to thank those who have looked after not just myself, but my family, and shown them support and kindness.

The purpose of these reports is to broaden the understanding that is so vital to our personal survival. Government cannot save us, and will only assist the very economic disaster we face. This is a **Sovereign Debt Crisis** that threatens our core survival. There is no plan to ever pay off debts. The majority of debt increase is paying interest perpetually to roll over without any long-term plan. What you see in Greece and in the States, we have run out of other people's money. The socialists keep pointing to the rich. But to fund the deficits, we need to borrow now from foreign lands. We ran out of money domestically and to support the current system like Greece, we need foreign capital. But all governments are facing the same crisis and we are on the verge of another widespread government default. Adam Smith warned in his **Wealth of Nations** that in 1776, no government paid off their debt and had always defaulted. We will have no choice either.

There is no hope that politicians will save us, for they only form committees to investigate after the shit-hits-the-fan. They will NOT risk their career for a future problem that may hit on someone else's watch. There was a politician and a average man standing on top of the Sears' Tower when a gust of wind blew them off. The average man being a realistic-pessimist, immediately sees he is about to die and begins praying. The politicians, the ultimate optimist, can be heard saying "Well so far so good!" as he passes the 4th floor.

At Princeton Economics, our mission was simply to gather global data and to bring that together to create the world's largest and most comprehensive computer system and model that would monitor the world capital flows. By creating that model, all the fallacies of market and economic theories were revealed. The world is far more dynamic and every change even in a distant land can alter the course of the global economy. Just as has been shown with the turmoil in Greece, a **CONTAGION** takes place and now capital begins to look around at all countries. We can no more comprehend the future but looking only at domestic issues today than we can do so in every other area, such as disease and the spread of flus.

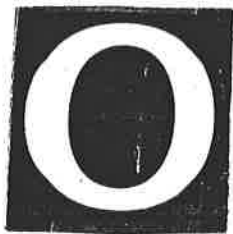
We live in a **NEW DYNAMIC GLOBAL ECONOMY** where capital rushes around fleeing political changes and taxes just as it is attracted by prosperity. All the people who migrated to the United States in the 19th and 20th Centuries, came for the same reasons as those still coming from Mexico - jobs and prosperity. In the 19th Century, America was said to have so much wealth, its streets were paved in gold. We must now look to both the past and the entire world to understand where we now are today,



Show Me the Money

By: Martin A. Armstrong

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



OUR MOST SERIOUS PROBLEM is that those who want to rule the world are simply ignorant of how the world really functions. We are headed into a TRADE and CURRENCY WAR because those who run the governments of the world are truly clueless. One of the greatest myths is that somehow we do not understand the economy, but those in charge must know what they are doing. In my younger days, I had written to President Reagan in 1985 warning that forming the G5 to manipulate currencies would prove to be a disaster. That volatility would rise significantly and that we would see a stock market crash in about two years. Beryl Sprinkle was the Chief Economic Advisor to the White House in those days. He took the time to respond in a two page letter I use to put on the screen at seminars thanking me for my warnings, but stating that Princeton Economics was the only firm with such a global model and until someone else concurred that volatility would rise, they could not listen to just one firm. When the 1987 Crash took place right to the day of the model, suddenly government went nuts. Urgently advice was solicited as whether this would be a Great Depression. Now, the letter I received stated that volatility was the number one problem. Jack Swagger called me to encourage that I try to help the Brady Commission. Two of our clients were now appointed to the actual Commission. We provided our forecast that the low was in place and that new highs would be made not new lows.

When the 1989 Crash came, I was on the phone with the Central Bank of Canada who wanted to know if they should be concerned and would it require intervention. My other phone rang and it was the US Treasury, who were asking the same questions. It dawned on me that in reality, we were all in the same boat. Suddenly, if those behind the G5 were calling me, it was painfully obvious that they were not 100% in control. In fact, nobody is. We are all flying by the seat of our pants and our politicians are highly dangerous.

The problem we have is that nobody has written a book on **How To Manage the Economy For Dummies**. Letting politicians make any decision involving the economy or finance is like asking my advice on brain surgery. Since most are lawyers, they have no clue about anything. Even Blankfien of Goldman Sachs had to talk down to most of those interrogating him on Capitol Hill. What they don't know is killing us. It is as stupid as Bretton Woods fixing gold at \$35 an oz but not limiting the amount of US\$ they could print. At some point there is more \$ than gold.

The greatest problem we face is the very fact that government officials have no clue what they are doing and they certainly won't make even an effort to comprehend anything because it does not benefit their immediate career. There are so many misconceptions on which they act that we are in a hopeless vortex of economic decline.

The brewing currency war is a classic example. The theory is that if you lower your currency, your exports will become cheaper to consumers in other countries and thus we end up with creating more jobs for you are selling more product. This idea is about as crude as trying to butter your toast with an ax.

In 1929, the total amount of imports was only 5% of GDP. In 2009, that number was 15%. The entire focus is nothing but the value of the currency. This is a trick for short-cuts, but it doesn't even work. Just look at China. The so called cheap labor factor resulted in rising wages. To some extent, jobs began to migrate to India when the cost of labor in China was rising. The China perspective shows that their imports were 3% of GDP in 1970 and have soared to 21% for 2009. China is actually importing more as a percent of GDP than the USA. Yet, the USA is bleeding at the seams and it is trying to blame China rather than placing the blame where it ACTUALLY BELONGS - on Congress.

Every Economist has deplored the events of the 13th Century when both England and France tried taxing their exports. In their mind, they were clever. They believed that they discovered a way to tax other people's money. There was a major economic crisis that developed between 1294 and 1297. The kings involved were clueless.

Today, America does the same thing and we have no clue what the hell we are doing or why. I testified in 1997 before the House Ways & Means Committee. The question that was asked of me was why no American companies were getting contracts in China to build the Yellow River Dam? I explained that the American tax system taxed WORLDWIDE INCOME unlike all other civilized nations, except Japan. Did anybody listen? NO! Did anyone understand that we were in effect taxing our exports? No!

Let us follow this out. If domestic tax rates are higher than the rest of the world, you cannot overcome that by lowering the currency value. Government has to be very competitive. The States have to compete. If one is very high in taxation, people will move to the next State. The same thing will happen among nations. Currency cannot mask the uncompetitive nature of taxation.

Secondly, because America taxes WORLD-WIDE INCOME, we are taxing Americans as if they are slaves. Just being born in the USA makes you the property of the government. It does not matter if you use any service. You owe taxes as a slave regardless of where you live and earn income.

Because we tax WORLDWIDE INCOME, if an American company builds a dam in China, they have to pay taxes in America. The German companies do not. The USA is making the same mistake as England and France during the 13th Century for we are taxing our export labor and expertise.

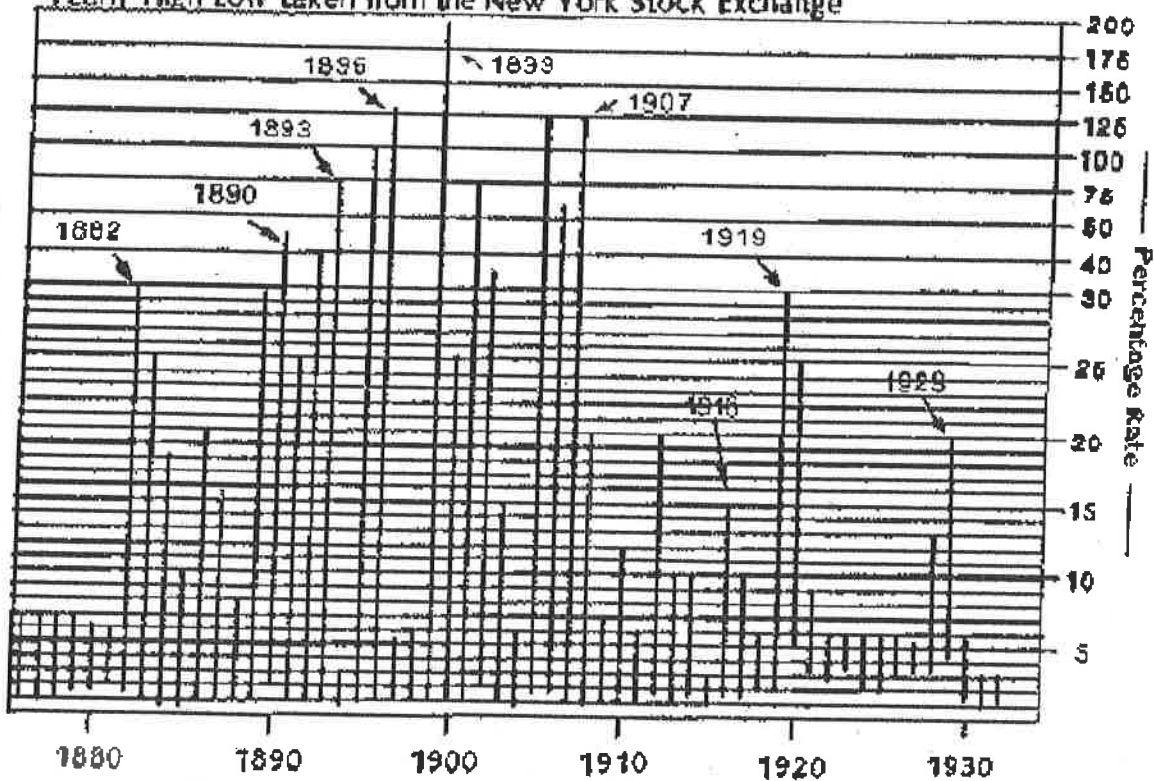
We blame everybody else, yet we refuse to look in the mirror. We are bleeding NOT just manufacture jobs, but back office jobs and educated jobs such as computer science. Why? Because the taxation, benefits, and skyrocketing healthcare costs are combining to prejudice American citizens in a global environment. Because Congress is dominated by lawyers, we will never get tort reform regardless of the party. It would be like electing all Goldman Sachs bankers and then expect them to regulate banking.

Thailand is trying to fight the rise in their currency by reinstating a 15% withholding tax on foreign investment in Thai bonds. They hope this will stop the buying of their currency that they see as reducing their exports. That is at least a reasonable targeted approach. Singapore also does not use interest rates to manipulate demand. Only the West seems to be misguided on that tactic.

Lowering interest rates or raising interest rates to effect supply and demand is about as stupid as taxing your exports. There is no empirical evidence that manipulating interest rates has ANY effect in manipulating the economy. It is like the medieval myth of bleeding people to get the disease out of their body. If they died, they didn't take enough sooner.

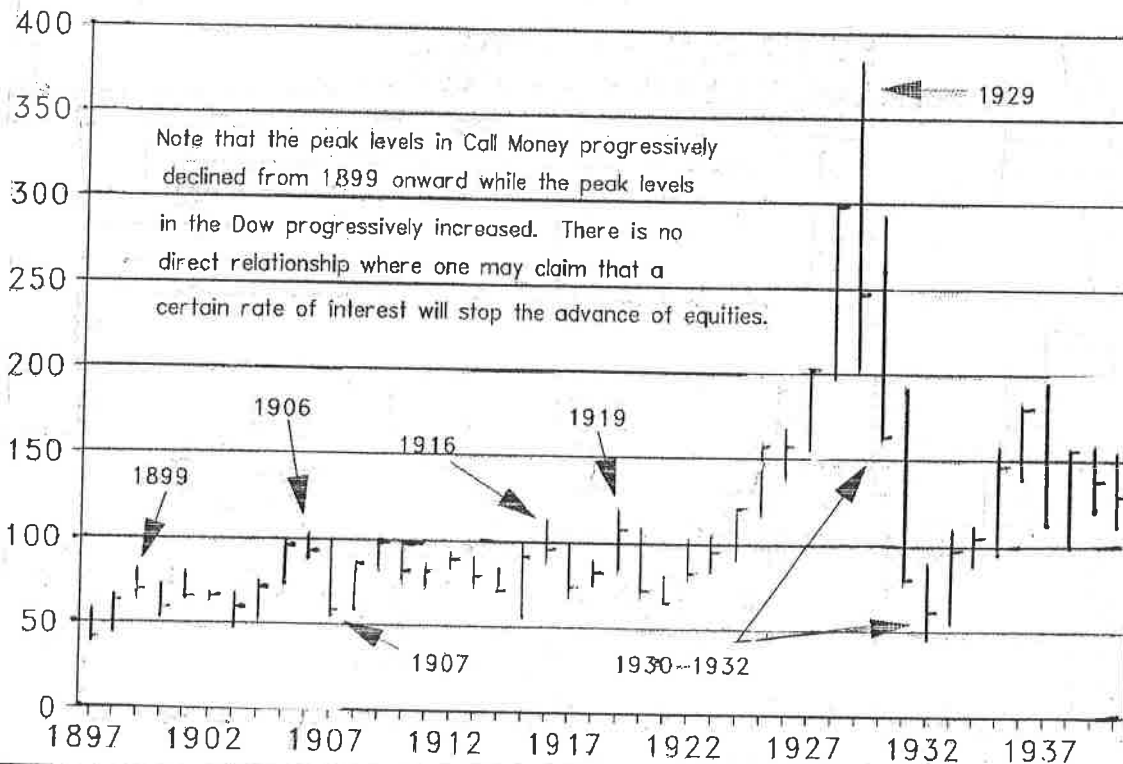
CALL MONEY RATES 1876-1932

Yearly High Low taken from the New York Stock Exchange



Dow Jones Industrial Average

Yearly: 1897-1932



Interest rates ALWAYS rise in bull markets and collapse in bear markets. They rise in bull markets BECAUSE people see a profit to be made. We did a study showing that with each peak in the stock market historically, the peak in interest rates was never the same and in fact in 1929, the peak was the lowest compared to all other panics.

The people will borrow at 20% if they believe they will double their money. It is the SPREAD between the rate of interest and the expectation of profit. That does NOT lend itself to any central bank tool whatsoever. The interest rates remained low in Japan and we got the lost decade. WHY? Because central banks refuse to realize they are powerless and need to pretend to be doing something for the public assumes they are in charge.

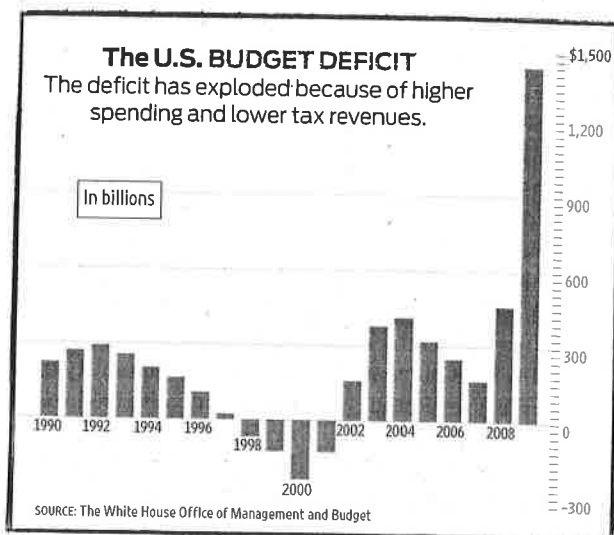
Lowering interest rates, as the theory goes, will stimulate buying. But if there is no expectation of profit, the rate of interest can be ZERO. It doesn't matter. You can't create stimulation by lowering interest rates when there is no CONFIDENCE.

The other side of the same coin is that the elderly have saved and retired. They now rely on fixed income. Lowering interest rates destroys their income. They are the consumers who are NOT effected by unemployment and the concerns of the future. Thus, by lowering the rate of interest, they are destroying another sector of the economy that is further reducing consumer spending and support for the family unit.

John Maynard Keynes advocated increasing government spending to stimulate demand when the private sector demand declined. He advocated managing recessions by tax cuts. Government doesn't want to listen to that part.

Government is raising taxes and has now shifted its criminal prosecutions concerning taxes gearing up its fund raising by confiscating property on all sorts of excuses and pretenses. We are becoming a drunk who is trying to drink his way to being sober. Good luck!

The markets have rallied because the Fed is buying back bonds injecting cash into the system. This is softening the dollar as well. But it will fail to stimulate anything.



The US Budget Deficit is simply going nuts. We are in a PHASE-TRANSITION just as we see in bubble markets. The bankers will encourage this because they are PRIMARY DEALERS so the very people that government will turn to will hand them another bottle and say "drink-up!"

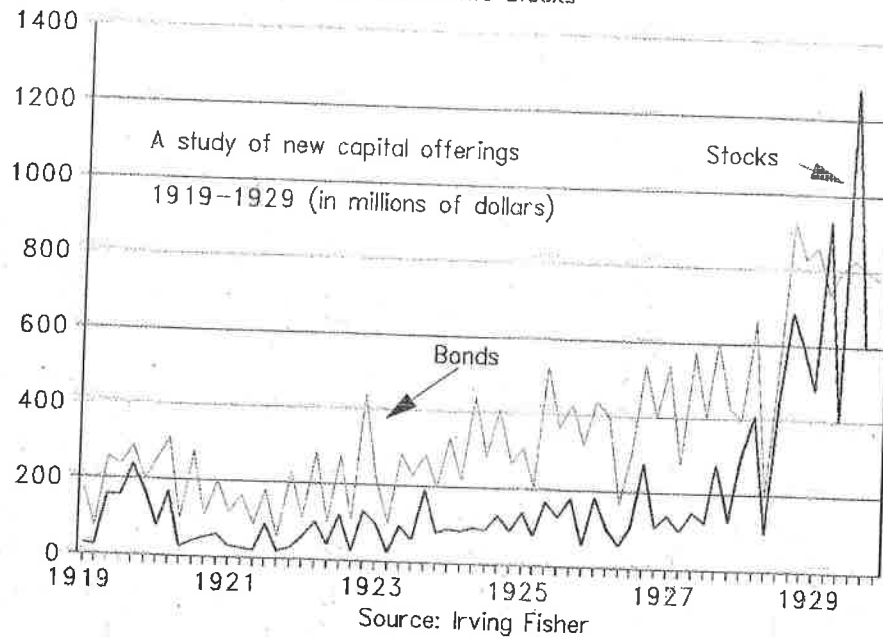
If we analyze the consumer debt closely, you will discover the real magnitude of the 2007 high and why I have been relentless on trying to explain the debt crisis.

MORTGAGE	74%
CREDIT CARD	6%
HOME EQUITY	6%
AUTO LOANS	6%
STUDENT LOANS	4%
OTHER	3%

We can see the major crisis in real estate. The debt that is owed is predominantly mortgages. People will not spend as freely as long as they feel they have lost their savings in real estate. That was their nest-egg for retirement. With that gone, there is a real problem and this illustrates why the economy CANNOT come back without a reversal in real estate that is not on the horizon.

With the Fed buying back debt, there is no guarantee that those bonds were held by Americans. I would be selling the bonds and taking the cash home, which is why the dollar is declining. The national savings rate among consumers has jumped 6.4%, up from its low point in 2005 just under 1%. Household debt is collapsing from the 2007 high of 138% of disposable income. The Feds have poured money into the pockets of the bankers to no avail.

Capital Displacement from bonds into stocks



It is truly amazing that we are in such a corrupt world and there appears to be no way out at all. It is as if you are going to play poker and before you begin, you show everyone your hand. For everyone else other than NY Bankers, you CANNOT advise and trade on the same thing without creating a conflict of interest. If a NY bank is advising China, it is insane to let an aggressive trading bank see what your portfolio is when you know that they will be trading against you anyway.

This is the world we live in. For all others, it is a crime of insider-trading. I could not have any personal account at all to advise corporations and governments. Yet NY Bankers embrace their conflicts and front run their clients. Nobody goes to jail for the US Government needs them like a drug dealer to sell their product (bonds) to the unsuspecting public. This unholy conflict is going to be the undoing of the United States for with the next crash, others will again point to NY and rightfully blame the SEC, CFTC, Fed, and Justice Department for always looking the other way.

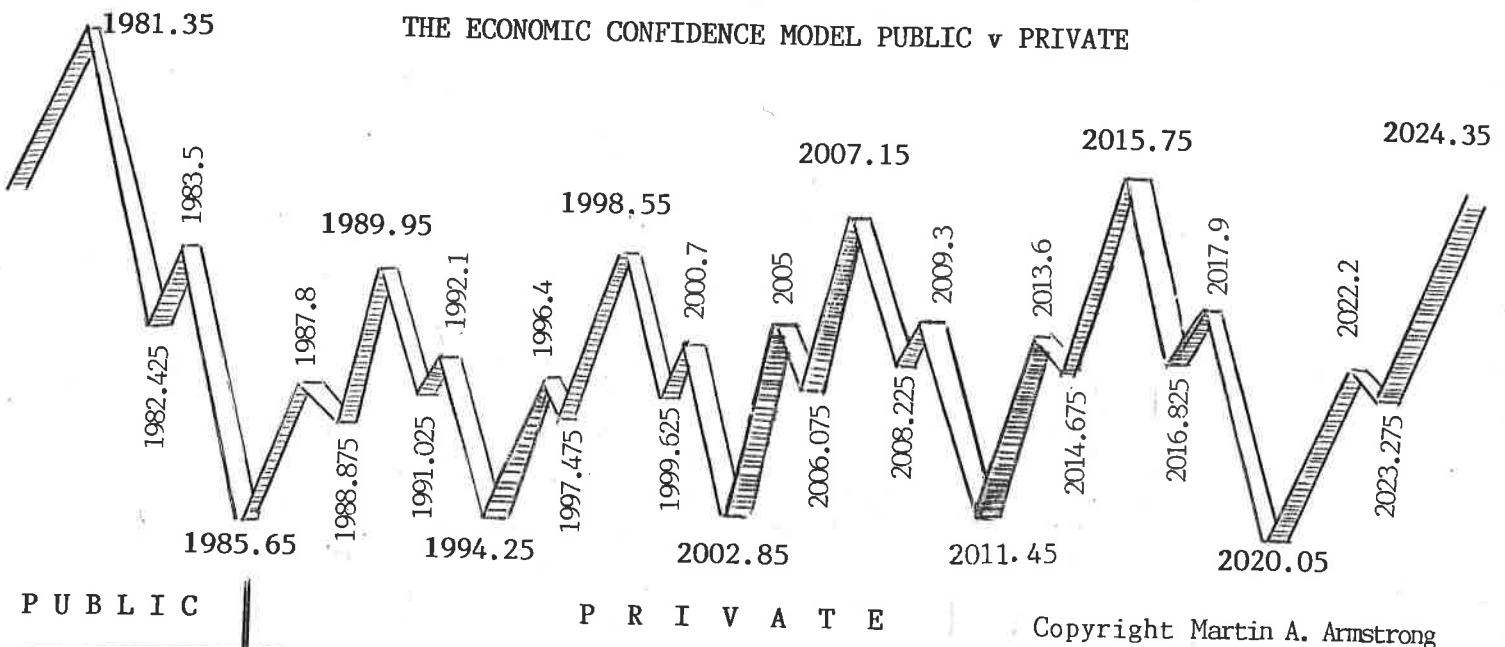
Here is a chart showing what takes place is a PHASE-TRANSITION (BUBBLE TOP). The total amount of new offerings in stock compared to bonds finally soared surpassing the bonds

only at the final point of creating the big BUBBLE TOP. For decades, new bond offerings ALWAYS surpassed stocks until the peak in 1929. Now bond offering dwarf those of stock offerings warning we are in a debt BUBBLE.

The bankers are doing far worse than CDOs and leverage. They are perpetuating the collapse of our society by pretending to even be advising governments when they have a vested conflict of interest. When Ben Franklin wanted to achieve that level of respect of being a valued advisor, he had to retire and give up his printing business. The definition of "disinterested" (impartial) person in 1776, was a person who COULD NOT benefit indirectly from his advice. That standard of impartiality does not exist in New York and they are going to give America A VERY BAD REPUTATION!

The amount of new offerings in debt at this moment in time is dwarfing stocks. We are in a dangerous bubble for debt and the NY bankers will NEVER tell the truth or put themselves out of business. Then we have lawyers running the country and making financial decisions without any expertise and with a personal conflict of interest of just getting through the next election. There is no long-term planning at all.

THE ECONOMIC CONFIDENCE MODEL PUBLIC v PRIVATE



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The shift from Public to Private that began with the peak in the Public Wave for 1981.35, was truly profound. It was the peak in US interest rates and the shift in world capital flows. It had also marked the peak in Communism. It was from this point that the economies of Russia and China began to collapse, as we will look at using the Yuan of China.

The final collapse came in 1989 where the student uprising took place in Beijing and the Berlin Wall fell. We then fell into 1994 before China began to stabilize. The rush to invest in Russia led to the NY Banks buying the Russian debt assuming that the IMF would guarantee their investments. That led to the collapse of Long-Term Capital Management in line with 1998.55.

We then lined up with the real estate cycle of 51.6 years that reached its major high for 2007.15. The real estate index had peaked precisely again to the day with the model as did the 1987 Crash, the Japan Dec. '89 Bubble Top, the low in the S&P to the day for 1994, and the peak to the day for July 20th, 1998. The 2002.85 low was the bottom after the DOT-COM Bubble for 2000. Here we had 911 to the day for the Pi Cycle from the 1998.55 high just as we had the Greek riots with the Pi Cycle from 2007.15.

The accuracy of far too many turning points precisely to the day has amazed many and led to the government accusing me of manipulating the world economy. Instead of

perhaps embracing a new technology, they have done everything in their power to destroy it because they do not like the fact that its conclusions warn that the game is up. It is interesting that the communists in Russia killed Kondratieff because he too said that their idea would fail and that the free market always wins.

This is what we are facing. If they do not like the message - kill the messenger. It does not matter if I survive. The model worked perfectly in 2007.15 regardless of what they have done to me. America is just no different than Communist Russia. If they don't like what you have to say, they mask their justification to reach the same ends.

China will take the torch as the new Financial Capitol of the World by 2015.75 and that is the ultimate irony. The nation that revolted against capitalism, embraced Marx, will become the center of capitalism because the West refuses to reform. The NY Bankers won't let reform happen and they are too busy lining their pockets. They are in reality burning down the house to find that dime they dropped somewhere.

There is no better sector or market to follow than the currencies. They are the unbiased reflection of the flow of capital globally that doesn't listen to the political bullshit of trying to manipulate public confidence. The A\$ has soared to par from the mid 80 cent level and the yen is climbing to new highs on a capital contraction. These are interesting times indeed.

The Intelligence

I have written before that there is a collective intelligence that emerges from the grouping of human activity. Where the individual retains the free will to decide to be right or left in politics for example, the collective behavior within the groups manifests into a mob-like pattern that then lends itself to clearly defined paths. The currencies are the most important aspect of all market behavior for they are the Looking Glass into the future.

If I said the first person who writes in and answers a particular question correctly will win 1 million lilangeni from Swaziland, the first thing you will do is grab a newspaper and look in the currency quotation section to figure out what that is worth in your own currency. For you see, **CURRENCY IS A LANGUAGE** that we all think in for it is what we call the **UNIT OF ACCOUNT**. The British pound was the unit of account for centuries, yet there was no one pound coin until the 1700s, since it was a pound of sterling silver similar to the Romans. The Greeks had a large unit of account known as a talent. The Greek talent was 6,000 silver drachms. Just as we have \$1 million dollars as a visual unit of account symbolizing wealth, yet there is no \$1 million bill.

CURRENCY IS THE INTERNATIONAL LANGUAGE that dictates all actions. This is why the fundamental analysis is dead wrong when we look at the economy. The 1987 Crash took place because the dollar fell 40% and they were saying it would fall again. Foreign investors (including Japanese who bought Rockefeller Center) all sold because their investment in the USA was being devalued when translated back to their home currency.

The **TEST** of a real **BULL MARKET** is a market that is advancing in terms of **ALL** currencies, not just the local currency. When a market rises in **ALL** currencies, then everyone is a buyer.

Now we are ready to discuss the real complex mind-twister: **WHEN UP IS REALLY DOWN!** Running around the world all the time exposed me to things you never learn in school. Having clients in every country forced me to see all markets from everyone's perspective. Between 1980 and 1985, the dollar rose to all time record highs. It did so because of the **BEARISH** outlook in the dollar. In 1980 the national debt reached \$1 trillion and the Eurodollar deposits were \$1 trillion. Europeans were convinced the USA would move to a two-tier currency system making blue dollars for the external debt and green for domestic as was the case in South Africa at the time. They assumed that the domestic dollar would be worth more than the blue external debt. So they moved to domestic dollars and the more bearish they became, the higher the dollar moved and by 1985, the G5 was born.

The **CURRENCY PARADOX** unfolds twisting all the best minds because of the check and balance that the currency markets provide to all political nonsense. **THE CURRENCY WILL RISE DURING ECONOMIC CONTRACTIONS** such as the dollar did going into 1932 creating the Great Depression manifesting in asset deflation. We are seeing this trend currently in Japan. As the economy worsens, the currency rises forcing more Japanese to sell overseas investments bringing the cash home to survive.

THE CURRENCY WILL RISE DURING ECONOMIC EXPANSION WHEN IT IS ATTRACTING INTERNATIONAL CAPITAL INFLOW. We are seeing this within the Australian marketplace. Unemployment has collapsed there and the currency has risen for Australia may be the land downunder, but it is on the top of the game among Western economies. Therefore, we must understand that sometimes currencies rise for two completely different reasons.

Australia has been the bright star for capital flows for positive reasons while the yen is rising **BUT NOT INVESTMENT OPPORTUNITY** for negative reasons.

CURRENCY is the most misunderstood concept within the entire economic landscape. The whole argument to create the EURO was so misguided it was frustrating. When the EURO was in the planning stages, I became a voice in the wilderness. The German central bankers were feeding us inside info to get out into the institutional community. They were not the ONLY central bank to feed us info that they wanted out confidentially.

The greatest myth was the comparison of the United States as the model for Europe. The argument went that there was a single fixed rate currency between California and New York and that was the success to the US economy. The perspective that somehow the world was better off under the Gold Standard that broke-down with World War I and by the end of World War II and Bretton Woods, the USA held 76% of global gold reserves and the dollar merely became a receipt for gold. France and Switzerland in particular were putting those dollar receipts to the gold window and taking the metal home. By 1971, the USA lost about half of its gold reserves forcing Nixon to close the gold window.

The fundamental flaw that still prevails today is somehow if we returned to a fixed exchange rate between the US and Europe that this will magically stabilize the economy. This is about as practical as returning to the gold standard. The entire problem is this notion that CURRENCY VALUE can be fixed in a world of political instability.

The gold standard did NOT last that long either. It is a false image to pretend that the gold standard existed throughout history. IT NEVER EXISTED beyond about 112 years. To pay for projects, government debased their coinage. Rome collapsed as its silver denarius was debased so much that it fell to 1/50th of its purchasing power from the outset. The gold solidus was the mainstay of Byzantium. There was the Great Monetary Crisis of 1092 and we find that the gold coinage became so debased that what was once gold became silver.

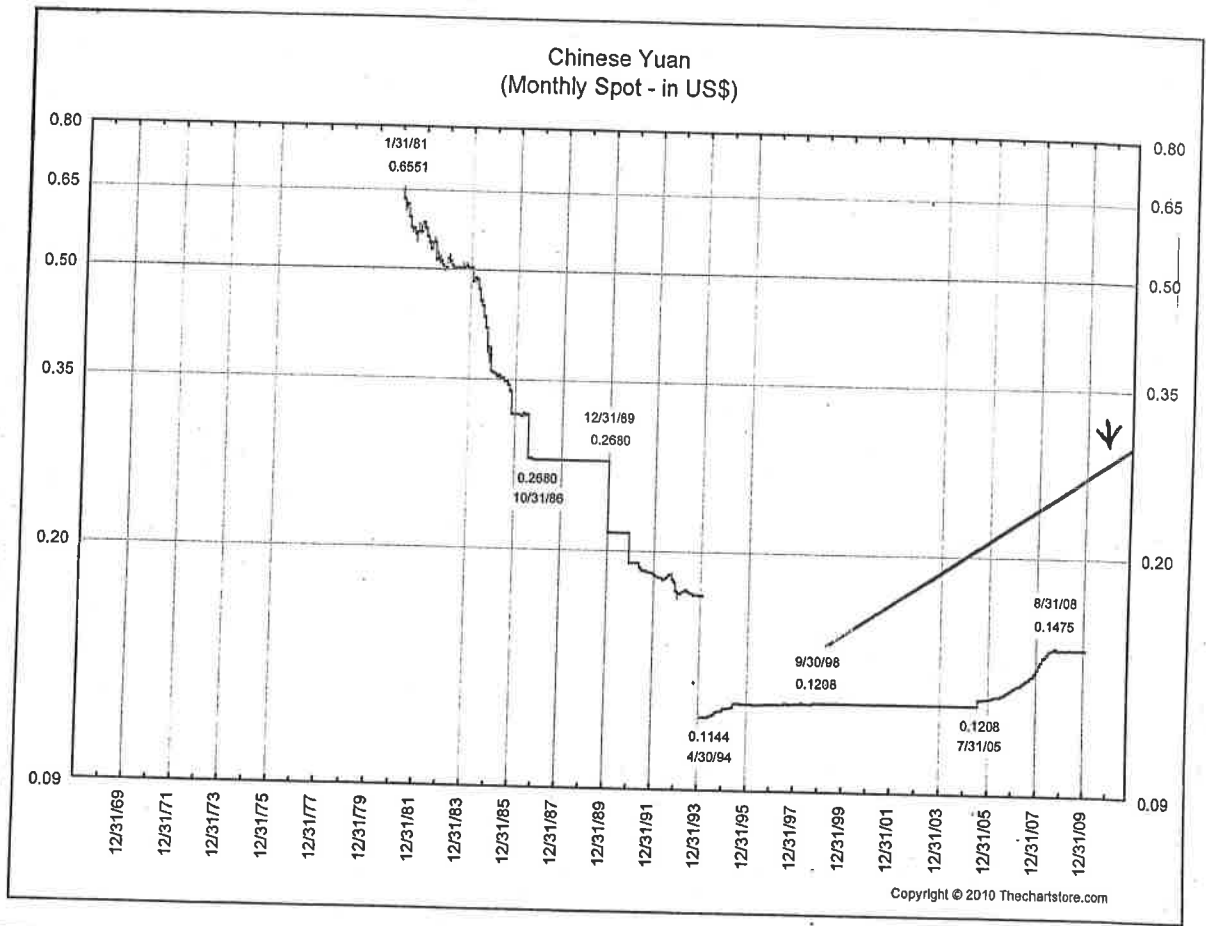
The Florentines in the middle ages had a two-tier monetary system where silver was the domestic currency and gold was the FLORIN used in international trade. But the two were independent and the ratio of silver and gold floated. It was NOT fixed.

There have been so many monetary systems over the past 6000 years that the one thing that is true for all ages is that NOTHING CAN BE FIXED FOR ALL THINGS COME TO AN END. Our greatest problem is Marxism, for it is this doctrine that created communism and empowered our western governments to adopt "socialism" that was nothing more than an excuse to regulate and spend without reason.

Bretton Woods broke down just as the gold standard before it because politicians just can't keep their hands in their pockets. They are always in everybody else's pockets! Those who advocate government intervention such as Robert Mundell (known as the Father of the Euro), is still living in a world that assumes that government can do whatever it desires to force the free markets into compliance. That to me is Marxist theory and it is such a narrow slice of the pie that is old school.

Milton Friedman in 1953 argued for a floating exchange rate taking the position that the free markets would provide the check and balance against government. The idea of government intervention is nonsense. I have sat in a central bank when the phone was ringing and they would not answer for it was another G5 member asking them to buy more of their currency. The banker told me he had enough. When I flew to Beijing at the request of China to meet with their central bank during the 1997 Asian Currency Crisis, the issue was the coming EURO for our flow models were showing that capital was shifting in anticipation of the coming EURO and was then selling Asia getting ready for the next big trade. They came to the conclusion that we were correct and we then struck a deal to do all the forecasting for China and to be given exclusive access to internal data. Of course, the USA put a stop to that.

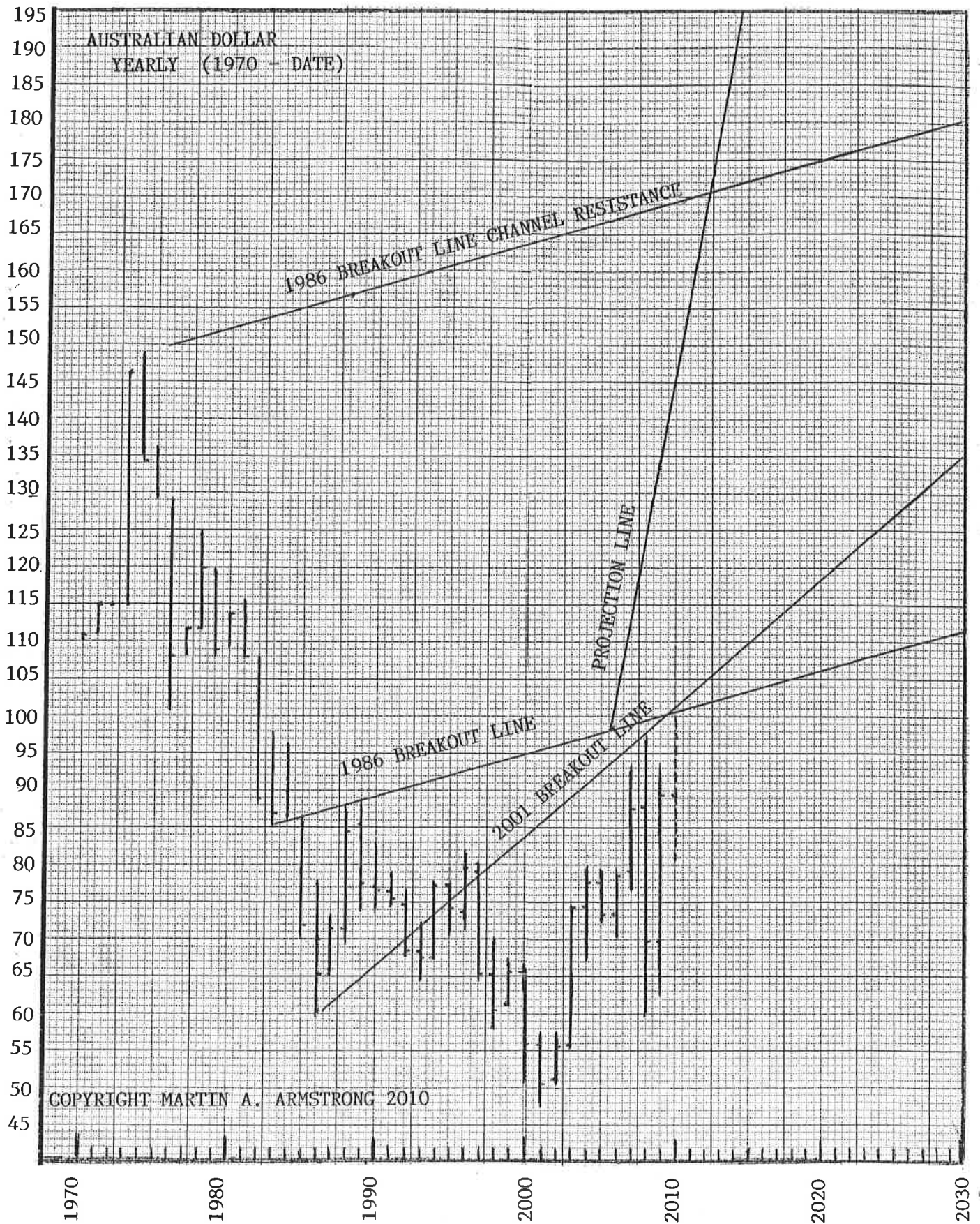
There is no return to a fixed currency that will stabilize the global economy without political reform. Government would have to stop this "vote for me and you will get" xyz. You can't have fixed monetary systems and spending that is unfixed. That will in fact always lead to collapse. Government has never paid its debts because politicians can't keep their hands out of other people's pockets.



We are in a collapse of everything we once believed was normal. Government has a self-interest that is to maintain its power at all costs - NO MATTER WHAT! They will not blink and there is no way to stop it when the bankers are the advisors. We are headed into a currency war because they do not even understand the problem and the bankers are handing another bottle and preach they better issue more and then get the fed to buy it.

If we look closely at the above chart on the Chinese Yuan, you will see that it began to fall rapidly from the 1981 high in the Economic Confidence Model that was the peak in the PUBLIC WAVE at that time. It had moved into a free-fall from 1983 into 1986. It flattened out during the 1985-1989 rally in the model. It collapsed precisely with the model from December 1989 with the Japan bubble top at 1989.95. It then collapsed in another free-fall going into the bottom of that model for 1994. It was 1997 that I was invited to China by its central bank for the Asian Currency Crisis. The 1994 low was on target and thus after the collapse in 1989 of the Communist-Marxist economic model, we see China bottoming in 1994 and it has not looked back ever since.

As we approach 2011.45 (June 13 $\frac{1}{4}$, 2011), this will be a critical turning point for China insofar as it will be 17.2 years from the 1994 real economic low, 21.5 years from the 1989.95 turning point and 30.1 years from the 1981.35 start of the collapse. The real big turning point will be 2020.05 from the Chinese perspective. The US peaked in 1999 with the low in gold on the major 224 year cycle, so everything is right on target with that major shift in the economic power from the USA to China. Britain peaked from the Glorious Revolution of 1689 224 years later that brings us to the start of World War I in 1914. Britain had captured the financial capitol of the world status from the Dutch with William of Orange. It lost it in 1914 as it shifted to America. Now America has lost it and it is shifting to China thanks to the collapse of Marxism now in the Western culture. The financial capitol began in Babylon, moved to Greece, then Rome, back to Greek Turkey, back to Italy, then to Germany, off to Amsterdam, and then London, passed to New York and that peaked in 1999. The West has lost that crown and it now passes to China who will eventually lose it to Europe and the circle will be complete.



Australian Dollar

The Australian dollar has been in a spectacular bull market since the 2001 low at 4774. Once the A\$ closed above 8810 for 2009, it confirmed that we would be off and running to test the combination of the 1986 and 2001 Breakout Lines converging in the par area for 2010. A closing above 9380 for year-end will signal that the A\$ remains in a short-term bullish position for 2011.

The major resistance will stand at the 12900 and 13600 areas. These will cap the rally near term, but the A\$ still looks like it will rally to test the \$2 level against the US dollar. This will be a reflection of more serious economic conditions in the USA economy than purely an Australian event.

We do have a Yearly Buy signal still standing at 9800. A year-end closing above this area will signal short-term bullishness in this currency. The Long-Term Yearly Bullish Reversal still stands at 11600. That is the key number that will signal a true breakout in this currency is underway.

AUSTRALIAN DOLLAR

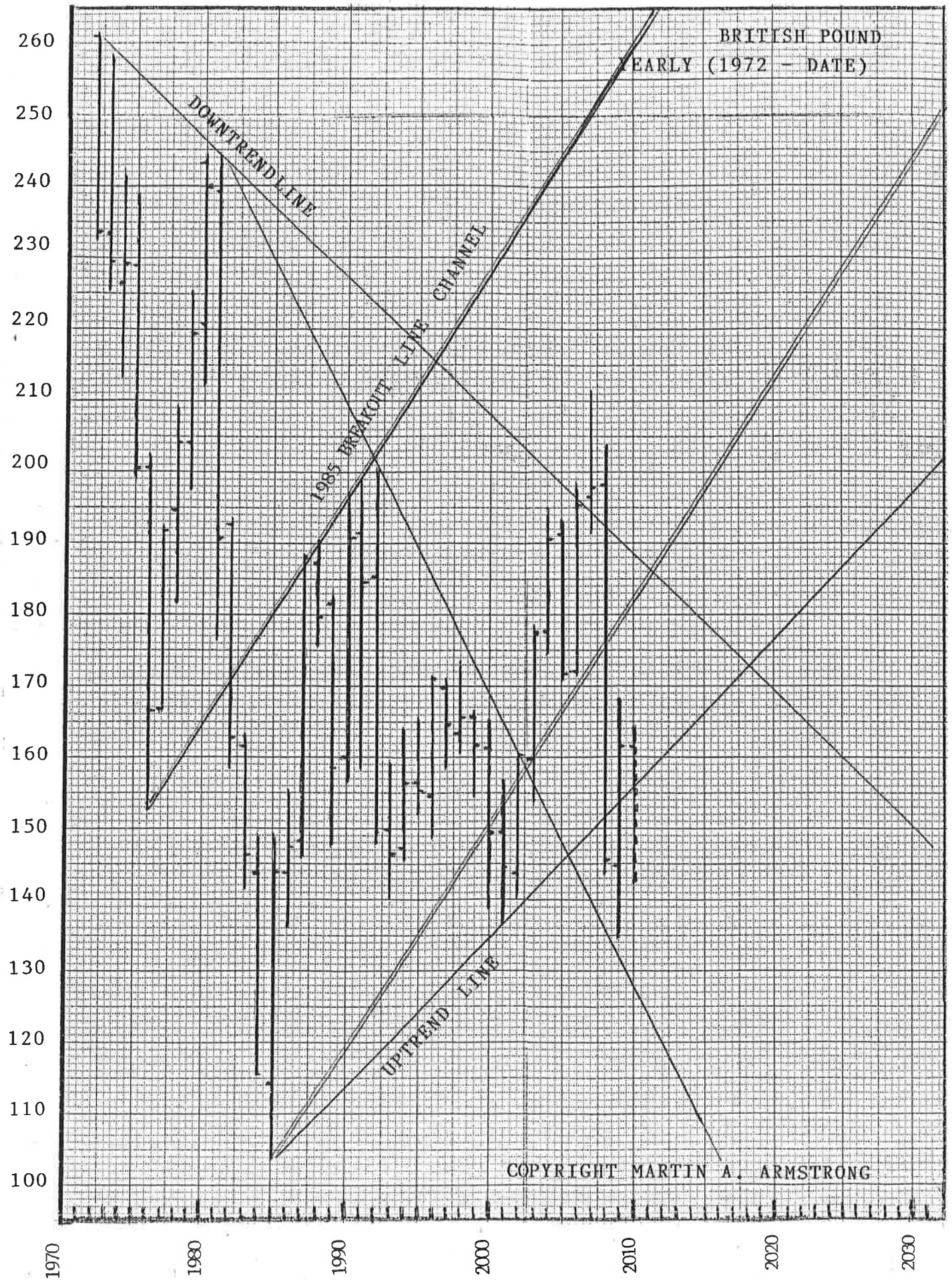
2010	2011	2012	2013
16979	17038	17096	171548
14600	13400	13600	
11500	11500	12900	12900
10116	10289	10462	10635
			10000
9770	9770		
9650			
9382		9382	9382
8650	8650		
8600			
8005	7930		
7660		7660	
7214			7315
6400	7000		6995
	6000	6200	6000

From a Cyclical Perspective, the next major annual turning point will be 2016 and that appears to be where a major high will shape up. The next most likely target is to test the top of the important 1986 Breakout Line Channel, which will be standing at the US\$1.72 level. Breaking above that channel and finding it to be support thereafter, will open the target to the \$2 level.

As explained earlier, the currency is rising because of a booming economy and capital attraction globally. This is the opposite for the rise in the Euro and the Yen. Thus, the Australian currency has a fantastic potential for the greatest capital gain long-term, for even stocks will rise there plus the currency gains.

The traditional economists will say the same thing that the US\$ needs to drop to rebalance the world economy. You will see the dollar decline against emerging markets in general that are considered to be Australia, Singapore, Thailand, and South Korea. Thailand has risen 11.9% by the Ides of October and Australia 10.6% since the start of the year. However, this is a rather primitive explanation of the real moving parts behind this whole trend. There is NO AMOUNT OF DECLINE FOR THE US\$ that will ever rebalance the global economy. The world just doesn't work that way. We have trade wars brewing everywhere because of this nonsense. Even Japan and Korea are arguing because the yen has risen sharply even against the won.

We cannot fix everything by manipulating currency! Sorry, but we also need SOUND ECONOMICS & FINANCE and above all STABILITY IN TAXATION. The government can claim I manipulated the world economy all day long because that is what they try to do and fail. I advised corporations where to build plants and one of the criteria was TAX STABILITY. Government just wants its cake and jobs too. That is nice bullshit, but taking aspirin will cure a headache - not cancer. It is time to stop the bullshit. It is more than currency valuations effecting the global economy. It is insane economic theories and manipulations. The A\$ is the bright star in the heavens of finance. It is time to start acting on hard evidence not slogans.



British Pound

The British Pound has been in a very long-term bear market since the mid 1800s when it had peaked at \$7.50. Its true high came with World War I precisely 224 years from the 1689 Glorious Revolution when the British ended up with a Dutch King William of Orange who brought to England more than Protestantism. He brought the Dutch ways of capital management. For those who may not know their financial history, after the Dark Ages, banking emerged in medieval times in Italy. After the Spanish, French, and English defaults, the financial capitol of Europe first migrated to Germany. But the last Spanish defaults in a series of many wiped out the German bankers led by the Fuggers. From there, it migrated to the Dutch, first at Antwerp, but the Spanish defaults forced it to move to Amsterdam and the 1689 acceptance of William of Orange meant that the English now adopted the Dutch technology in financial markets shifting the financial capitol from Amsterdam to London. 224 years later, we come to World War I, the peak in Britain and the start of the shift of the financial capitol to New York.

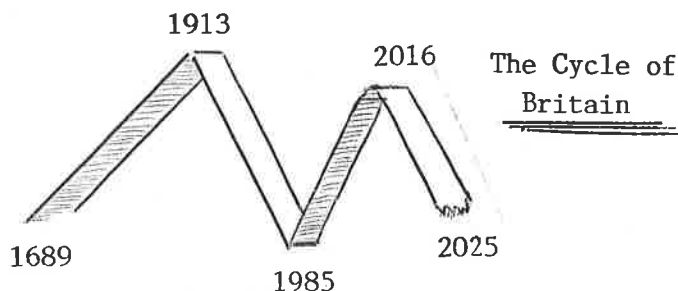
The decline into 1985 was precisely 72 years from the 1913 high. We then saw a 21.5 year rally precisely into a high for 2007 that was then a perfect interval on the 8.6 year model (8.6×2.5).

The British pound has an important turning point in 2011. It is possible that a major low in 2011 could be followed by a rally into 2016 that will be the next major annual turning point. Britain has declined significantly with Marxism. There is a flicker of hope that Britain could see a reversal of fortune and actually be one of the first in the West to turn its back on Marxism. It is desperate times that make desperate changes. I can only hope my old friends in Britain can influence the necessary political change in the nation.

A year-end closing for 2010 BELOW 17045 will keep this currency in a bearish mode for 2011. There support lies at 15476 for the year-end close and support in 2011 lies at 13850. Initial support or pivot point lies at 15830. This is the key number to watch. If 2010 closes BELOW 15830, we should see drop to key support.

Because the pound made a low at \$1.03 in 1985 and that was precisely 72 years after the 224 year high, there is a reasonable chance that we will not see the 1985 low penetrated. Resistance could form as low as 16050 in 2011 with support at the 114-11500 level. Just to turn neutral, the pound must close above 17200. But that will not prevent a drop to a low. If we do see a low form in 2011 under the 2009 low of 13492, then we may have completed the long-term test of support with a rally into 2016. But a rally above the 2009 high of 16876 BEFORE we see a low would actually be more bearish looking out into 2016, suggesting a low at that time rather than a high.

Historically, when we are dealing with this 224 year cycle, we get a 72 year decline that is then followed by a Pi Cycle counter-trend move. This means a 1913 high, 1985 low with a 2016 high. This is the result of this timing that has been tested in countless versions of different economies throughout the last 6000 years. Thus, it appears more likely that a low in 2011 will be followed by a high in 2016 that may retest the \$2.40 level.



BRITISH POUND			
2010	2011	2012	2013
21800	20400 19853	21400	20500
19118	18400	19200 18800	19000
18299	17115		
17045	17186	16876 16680	16578
15830	16042	15476	
	14325		14335 14200
		13495	13850
12800	12400	12200	11800

120

CANADIAN DOLLAR
YEARLY (1972 - DATE)

110

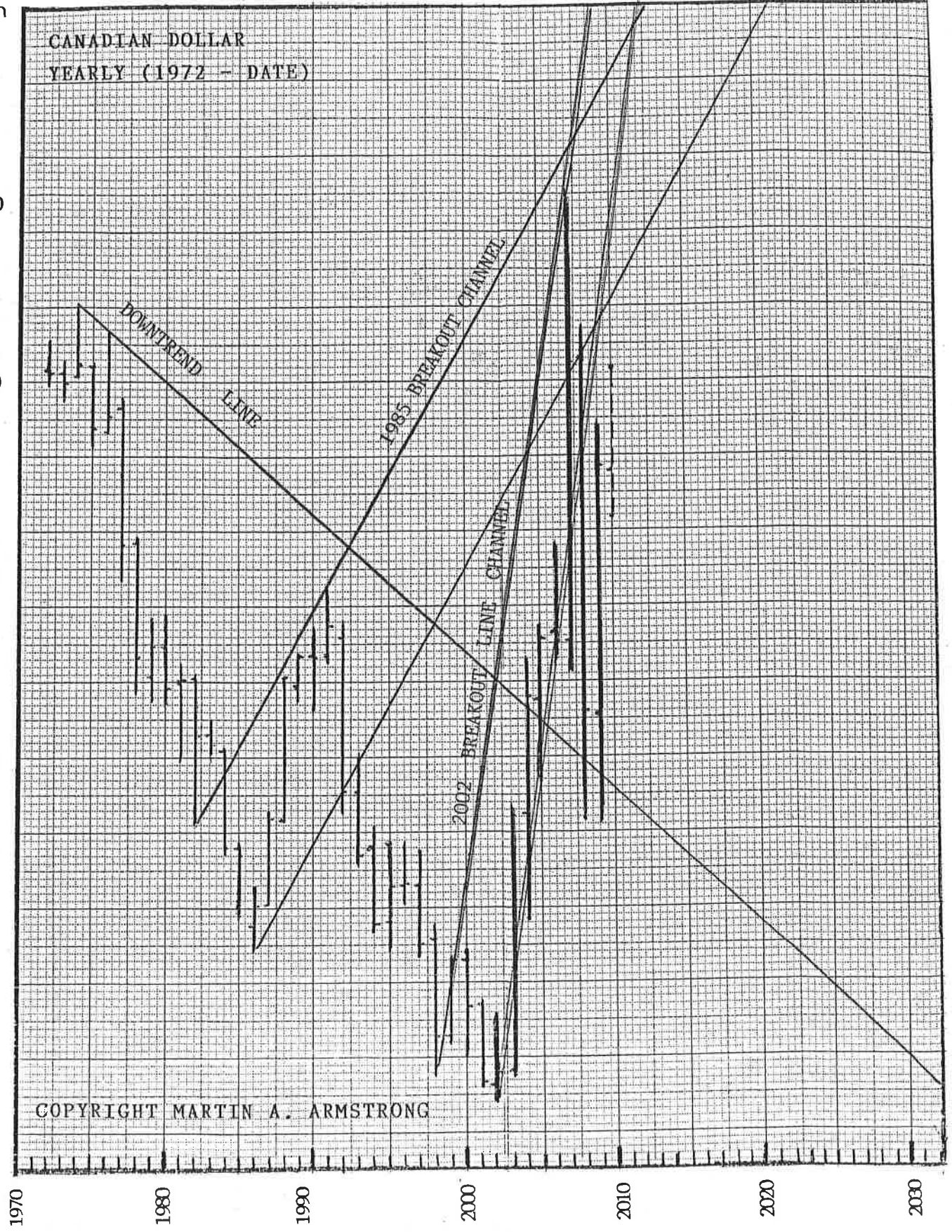
100

90

80

70

60



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Canadian Dollar

The Canadian Dollar looks about as wild as anything on the currency landscape. Here we have a stunning rally into 2007 that had nearly rallied to the top of the old 1985 BREAKOUT CHANNEL. The steepness of the move is exceptional. This warns that the once nice and quiet C\$ is going to be subject to very high volatility into 2016. The image of many Mexicans swimming across the Rio Grand may one day be contrast with Americans fleeing to Canada. That would become the ultimate irony.

From a long-term cyclical perspective, the immediate two years ahead 2011-2012 are possible to produce a consolidation phase. Thereafter, it appears that the C\$ is likely headed for a major rally into 2016. That is the primary target where we may see a high that could also reach the US\$2 level.

The cliff that appears after 2011 is a steep one. Those who have followed the volatility forecasts since the early 1980s, will remember the 1985 Conference and how this was discussed. Well, that time has now arrived. So it is time to get dressed up for the most dramatic period of volatility is now upon us.

While the C\$ has been flirting with the par level once again, the pivot point will be 10300. In order to challenge the 2007 high next year, the C\$ must close ABOVE the 103 level for year-end. I am not concerned about about a sell signal. A closing below 103 will keep the currency neutral for 2011.

Even a year-end closing above 103 will not guarantee new highs. Resistance will be at the 108 level during 2011. Initial resistance will stand at 103 and 105. Only getting above 105 will be immediately bullish.

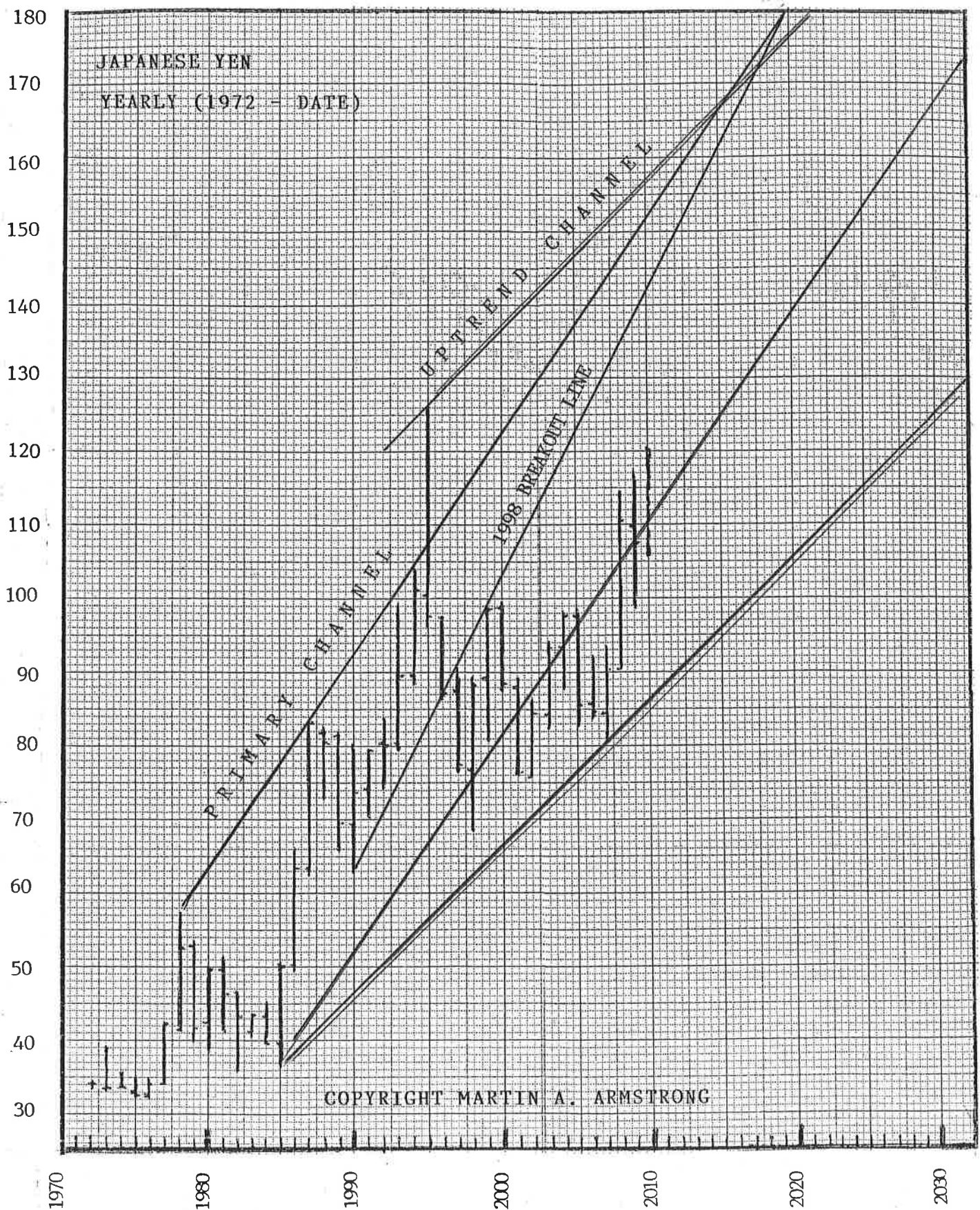
The main support lies at 84 and 87 with the major broader support to be found down at 78. Only a yearly closing back below 7135 would signal a bear market. That does not appear to be in the cards at this time. Technical support will also lie at the 78-76 level for 2011-2012.

From a cyclical perspective, we still have a potential for some consolidation for 2011 to 2012. Thereafter, the trend upward appears to be likely with a high going into the next major top 2015.75 on the Economic Confidence Model. There is an outside shot that the C\$ could develop into a truly major bull market where the final high would not arrive until 2019.05 (January). To make that sort of move, there would be no consolidation for 2011-2012, but a rally that plows off to higher highs following the 1985 BREAKOUT CHANNEL. We would have to see a closing for 2010 above 10280 and 2011 to exceed the high of 2010. This type of pattern would warn that there is serious underlying economic problems ahead.

We are simply in the final stages of a complete economic meltdown. Marxism is dieing of its own weight and mismanagement by all government officials. For decades, politicians have been promising the moon. They have made unfunded promises to the people as well as to government employees. The West is collapsing no different than Communism. The nations that listen first will survive. Those who try to hang on to false promises and dreams, will be in serious trouble. Even in France there are riots over having to increase the age for retirement to cover unfunded liabilities. The system is broke and the future in uncertain. The currencies are going to be a window into the soul of socialism.

CANADIAN DOLLAR

2010	2011	2012	2013
11010	11020	11030	11040
10450	10550	10720	10840
	10298	10298	10298
	9798	9798	
	9152	9152	
8753			
8489	8489	8427	
8042			
7855	7682	7653	7715
7535	7569		7682
	7139	7328	7213
	7120		
6954		6947	6992
		6473	
	6305	6305	6405



Japanese Yen

Economic declines of the magnitude that Japan has suffered, are the sort of things that change the very belief systems within society. At the peak in December 1989, the government told NIPPON Life not to hedge. It had a portfolio of \$1 trillion. It believed that if they hedged, the Nikkei would drop. They lost a vast amount of that money in just the first year. This was typical of events in Japan. The government directed how the private sector should act, without legislation. Politicians, who knew nothing about the economy, screwed up the second largest economy in the world from which Japan entered the "lost decade" that is really the LOST QUARTER CENTURY.

The Great Depression changed America. It shifted the confidence from the private to the public sector. This Great Depression in Japan has had a similar effect. Where Americans all bought savings bonds and schools did not teach world culture, but American culture and how all roads now led to Washington, not Rome. Americans became indoctrinated that government was best, it cared for its people, and it was never wrong. That same attitude prevailed in Japan. When the government "requested" something, you bowed and never said no. Government had replaced the emperor who was once seen as the son of God before World War II.

Japan now has a new generation that no longer believes in government just as Americans no longer see savings bonds as a great deal. Part of the reason the cycle is 51.6 years is this very generational shift in attitudes. The bulk of the older members become entrenched in their beliefs. I had met elderly tycoons in Japan in their 80s back in 1989 who confided in me that the Emperor was still the son of God. They would die with that belief, yet the concept does not cross the minds of the young.

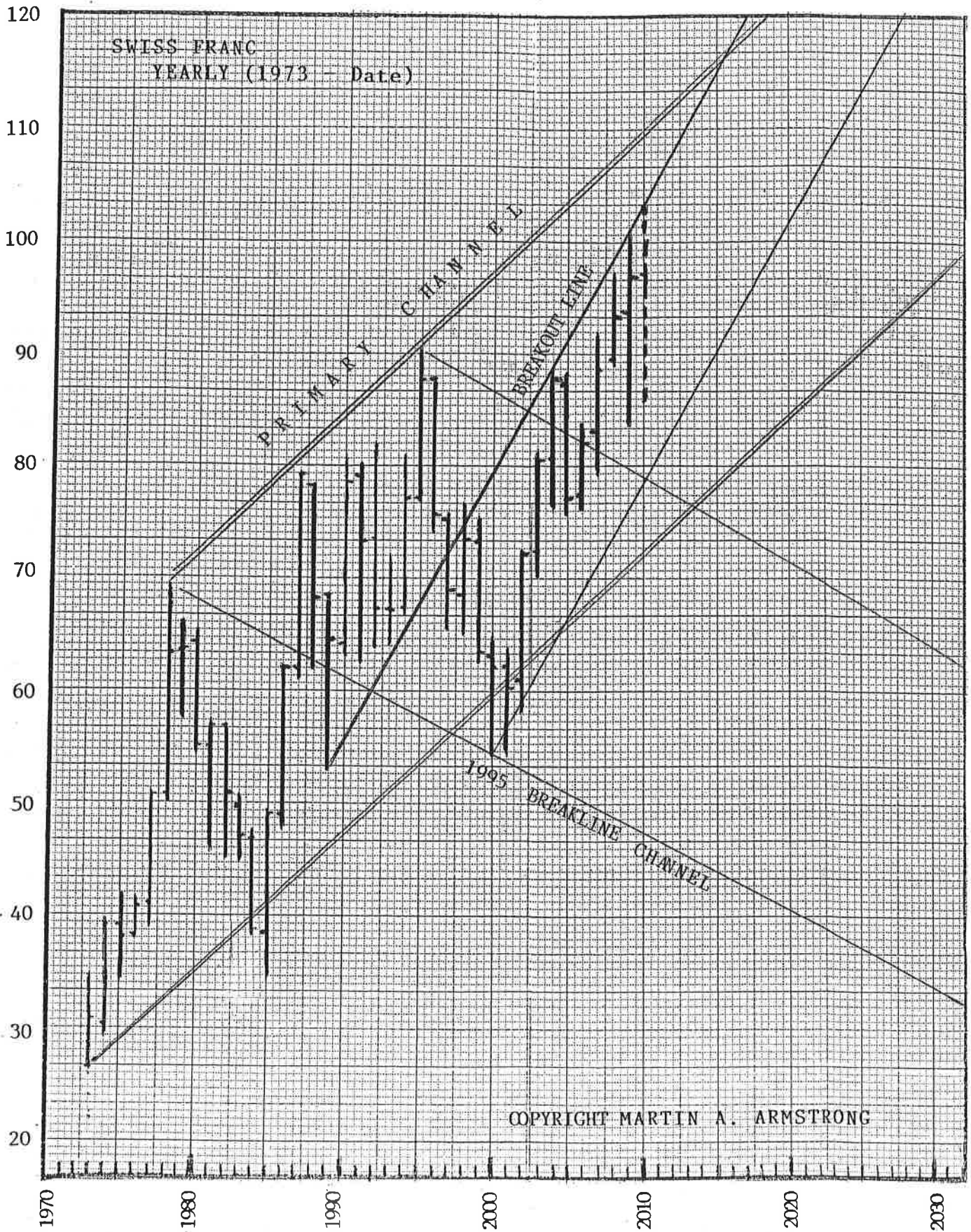
The Japanese yen is rising to new highs and it will exceed that of 1995 (126.25 futures 79.22 cash). Yet this is being caused by the economic contraction, not a positive capital inflow. This rise is causing political instability and a collapse in the belief in government. Japan is manifesting a Private Wave in the classic manner as profound as the shift in America was from the Great Depression.

This Lost Quarter Century is having a huge impact upon the changing face of Japan. The confidence in government has been simply collapsing and that final push off the edge that is materializing by the rise in the yen, will see the debt crisis hit Japan sovereign debt like never before. Interest rates will RISE by sheer force once the low in the US\$ is achieved (high in yen).

From the major low in the yen that took place at 3130 in 1974, we are looking at a potential crisis for the yen as soon as the 2011.45 target. This would be an alignment with the 37 Year Monetary Crisis Cycle. In the US\$, that was 1934 for Roosevelt's devaluation and confiscation of gold followed 37 years later with the closing of the gold window and birth of the floating exchange rate system in 1971. In the yen, we are looking at 37 years from the 1974 low brings us to 2011. Therefore, we have a potential that 2011 may cause the high in the yen, and from there we will see an outflow of capital from Japan that will result in a capital shortage, debt crisis in Japan, and thus rising interest rates at last. A year-end closing ABOVE 11800 on the futures (below 84.74 cash) will warn that we may indeed see the final high in 2011. Keep in mind that the Nikkei peaked in 2007 also precisely to the very day of the model 2007.15. That alignment is a warning that Japan may be in serious trouble from here on out.

JAPANESE YEN

2010	2011	2012	2013
			16800
		16000	16600
15200	15500	15800	
	15400	15000	15250
14700	14800	14980	14980
14000	14300		
11500	11520	11800	12110
			10532
9873		9990	9974
9350	9015	9870	
	8974		8794
8250			
8085		8040	



Swiss Franc

The Swiss franc is still in a bull market from the early 1970s. As I have written before, Switzerland has been the safe port for capital and it began as a place rejecting taxation from the power claimed by the Habsburgs - the Holy Roman Empire. Switzerland was even a sanctuary for the Protestants fleeing France. It was also a safe place to run to from the French Revolution. That long historical culture served it well. The recent stain upon that tradition is the surrender of its sovereignty in the UBS affair. That above all else illustrated that you cannot deal with a bank who has a branch office in your own country in the years ahead for the various governments will turn against their own people taking all their wealth in a desperate attempt to cling to power.

The Swiss franc NEVER elected any Yearly Bearish Reversal from the 1980 high nor from the 1995 high. The Swiss did at best issue a brief minor sell signal at the end of 1999, but a buy signal was generated from the close of 2002. Another was hit at the close of 2003. But NEVER has a Yearly Bearish Reversal been elected in this currency post 1971.

The TOP of the Primary Channel that was created by the two highs of 1980 and 1995, projects out at near 109 level for 2010. We are in the crosshairs of a major possible high if we see the 109 level by year-end. A closing above 10090 will keep the door open for new highs next year in 2011.

2011, if I remember correctly, was a target for a PANIC CYCLE on the Yearly Model meaning that we could see a swing that is dramatic next year. That means we exceed the high of this year during the first half, and then swing down penetrating the low of 2010 going into the second half of 2011. This is what we called a PANIC CYCLE that is effectively what we call also an OUTSIDE REVERSAL TO THE DOWNSIDE. This is a potential for a major volatile year in 2011.

The top of the Primary Channel stands at the 109-11250 level between now and 2013. This is the first real level of long-term resistance. While it is entirely possible that we get a spike high in a Phase Transition type of move that exceeds this top of the Primary Channel, it is not likely that we will see a sustained rally above this major technical projection. It would take two consecutive yearly closings ABOVE the Primary Channel before we will see such a sustainable long-term movement off to a new PLATEAU. That is a possibility, but so far, there is no such indication without exceeding the top of the PRIMARY CHANNEL.

So far, the Swiss Franc has been in a long-term bull market. It did breach the bottom of the PRIMARY CHANNEL in 1985 and 2000. However, we did not achieve two consecutive annual closings beneath that channel leaving the bull market intact.

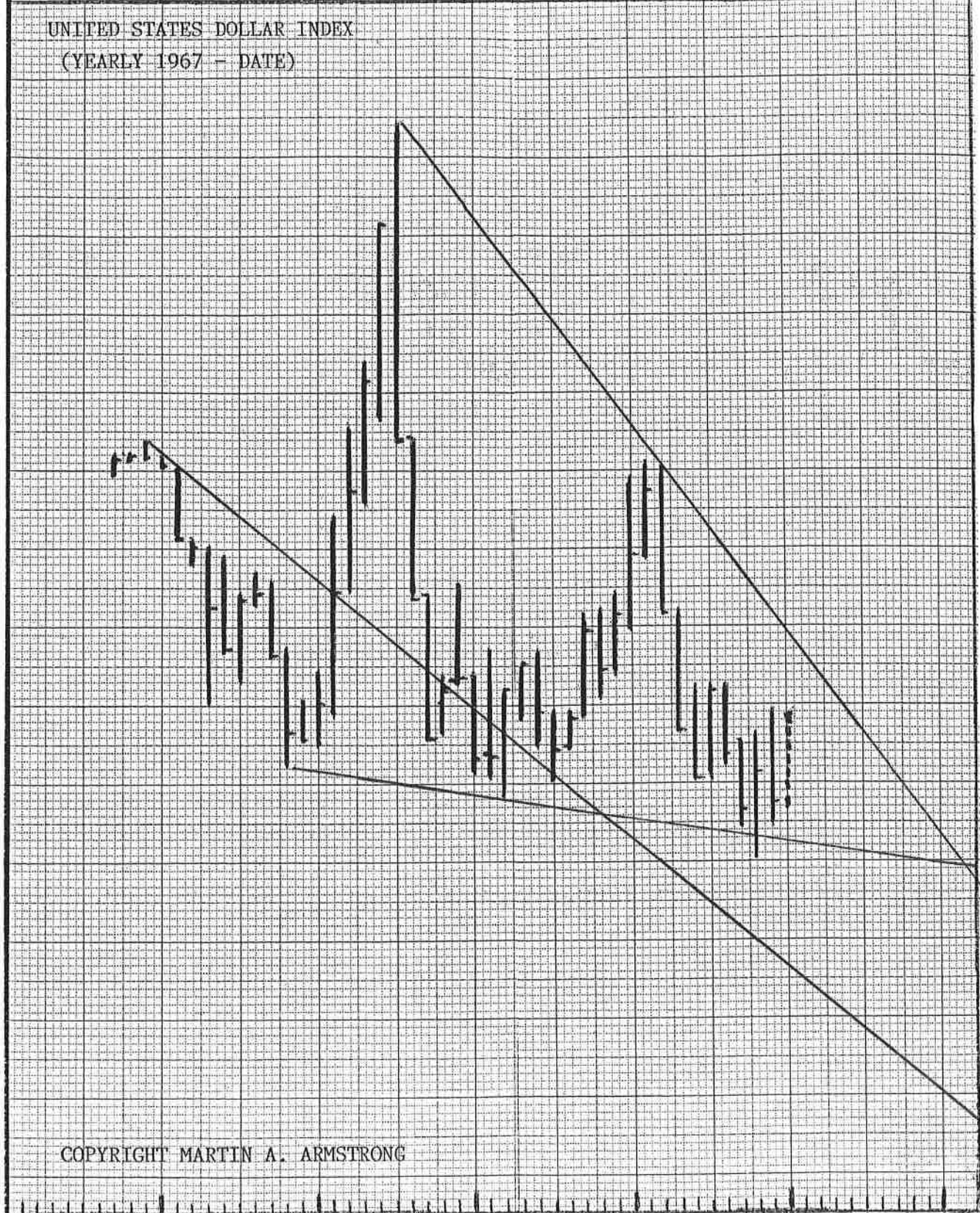
We are reaching a critical junction where we could at least have a pause in the uptrend briefly, as is the case with gold. But holding the bottom of the PRIMARY CHANNEL on a yearly closing basis will keep the door open for new highs going into 2016.

2016 does appear to be the major big event in the future. Thereafter, a opposite trend will develop into 2022. So the big event will come into play next year - 2011.

	SWISS FRANC		
2010	2011	2012	2013
10879	11002	11124	11247
10222	14442	10664	10885
		10090	10400
	9665		9675
9200	9200	9200	
8826	8902	8902	8902
		8356	8527
7979	7924	8146	8367
7980	7925	7982	
7548	7464		

180
170
160
150
140
130
120
110
100
90
80
70
60
50
40
30

UNITED STATES DOLLAR INDEX
(YEARLY 1967 - DATE)



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US Dollar Index

The US\$ has been in a broader bear market since its 1985 high. There is a possible major low that might form in 2011. There is a possible major low available on a cyclical perspective extending out to 2022, which is the low of the next 8.6 year wave. However, extending that far out is not yet by any means confirmed.

One of the most important aspects to understand about currency is that often the outcome is precisely opposite of what the traditional expectations leads one to there and then believe. For example, the dollar rose in value between 1929 and 1932 reaching its major high while interest rates were declining and the economic outcome was just imploding. This pattern becomes a vortex where capital cannot escape the gravity pulls like a **BLACK HOLE**. Japan is going through this very pattern - declining interest rates and declining economic expansion.

The **ECONOMIC BLACK HOLE** is contrary to what most people expect. The Europeans use to brag about how strong their currencies had risen post-WWII for politicians used it as a testament to their policies. A currency will rise with capital inflows globally that are investing in that nation. But it will also rise during a **BLACK HOLE** event where the capital is coming back to cover costs that is abandoning global investment for domestic. So it is critical to look behind the curtain to see the cause lurking behind a rise in the currency. It is critical to understand what is taking place, Everything depends on it.

It appears that we are headed into one of these **ECONOMIC BLACK HOLES** that may emerge between 2011 and 2016. The sub-prime crisis was shifted to **FANNIE MAE** where there was some tightening of rules, but the lower standards to obtain mortgages were closed off at the banks **UNLESS** it would be a Fannie Mae. We may see over \$1 trillion in defaults appear in this part-II to the debt crisis push everything off the cliff. There is no chance of the mortgage market coming back and that means no solid recovery with rising unemployment from the public sector. This all points to a

ECONOMIC BLACK HOLE that will result in gravitational vortex that will pull cash back to the USA. There is over \$1 trillion outside the USA in corporate profits that they will not bring back home because of a 35% tax. This illustrates how back American tax policy truly has been. The Marxist side of the USA has cost jobs and growth for decades.

Clearly, we are looking at a serious issue of a potential **ECONOMIC BLACK HOLE** not unlike that of Japan that will signal the implosion of the US economy. The other-end will emerge as some new monetary system with massive government defaults. We too will see a capital contraction to make ends meet 2011-2016.

There is a potential for a final low in 2011. A closing below 7471 will signal that such a potential exists for 2011. Major resistance will stand at 8080, and a closing beneath that number for 2010 will signal the dollar is still weak for 2011. To generate a buy signal, we would need a year-end closing above 9300 at year-end. The support to focus on lies at 7065. A closing below this for 2010 will guarantee a new low for 2011. A monthly closing below 7660 will signal that the \$NDX is turning bearish short-term.

2010	US DOLLAR INDEX		
	2011	2012	2013
15200	17000	17100	17200
12618	12365	12475	11910
10180	10288	10488	10440
9263	9116	10375	9405
8815	8788	9305	8871
8545		8962	8545
	8225	8545	
8077			
7471	7471	7471	7660
6005	7070	7070	7070
5840	5840	5675	5520

EURO

The rise in the Euro of late is not due to a booming economy. To the contrary, Marx has worked his wonders throughout Europe as well. We now have riots in the streets in France and the government vowing to put down the unrest and restore order. The problem is rather stark. The promises continue to be made yet there is no funding for the dreams.

The EURO is rising and that is BY NO MEANS bullish. Here too we have a capital concentration going on and shifts in capital flows throughout Europe that are now exposing the EURO to the future danger of a break-up. Fixing the Euro and the Dollar is being also argued by academics. But that is just another insane idea. The inmates are running the asylum and nobody has any experience. Government is simply being run by the seat of its pants and the self-interest of politicians and the lack of experience of academics have been mixed to create a toxic cocktail of truly lethal proportions. They have checked in - but they cannot check out. They are determined to take all of us down with them. This is a real matter of a raw exercise of power.

Government worldwide simply exudes such absolute self-righteousness that the future does not appear very bright. Sarkosy of France has painted the rioters as troublemakers. But once again, this is a refusal to look in the mirror. Governments have been making promises for the past 50 years that there is no real funding and an assumption that any problem will be the next guy's. Well, the chain of blame is reaching the end and it is time to start to address reality and how do we solve the debt crisis.

The danger for the EURO is that the stress we are seeing is undermining everything. The idea of a single currency was not well thought out because academics pointed to California and New York as having the same currency. They failed to address that there was also the same culture. The French are historically the most resistant to taxation since the 13th Century and will not tolerate tax increases compared to the Germans and British. The French fought a bloody revolution over economics that neither the British nor the Germans ever did.

The EURO is suffering as internal flows are now starting to be selective regarding sovereign debt. The same currency denominates Greek and German debt, and that now leaves the raw credit risk. This means as the local economy declines putting pressure to cut public spending, the "real" cost of paying back debt is rising at a time when the economy is indeed declining. The amount of production it now takes to pay past debt is rising in the weaker European nations when the economy is in a decline. Government has to reduce the cost of decades of Marxism (public pensions and employment), and this is creating unrest. In the USA we also see rising unemployment from the public sector even in the face of private job growth. This is the collapse of MARXISM!

The key support lies at the 11650 level and only a year-end closing below this would warn that the high is in place. Otherwise, the EURO remains neutral with a year-end closing below 13600. A closing below 12900 for the EURO this year will warn of weakness. Next year, support will lie at the 12300 level but a 2010 closing beneath this area will signal weakness in 2011. A closing ABOVE 13600 for 2010 will signal we can still make new highs. A year-end closing ABOVE 14980 will be very bullish for 2011.

Cyclically, we could see a high in 2011 above that of 2008 (15988). If that were to take place, this would be the opportunity to see a very important high long-term. The next opportunity from a time model viewpoint will not arrive until 2016 on the Pi Cycle from the 1985 low of in 2022 that will be on the first leg of the following wave similar to the time of 1987.8 Crash. I doubt that it will be that long. It is more likely that a major high is likely in 2011 or at the latest 2016.

THE EURO

2010	2011	2012	2013
16000	16050	16100	16200
14980		15200	
		15000	
13600	13400	13700	14000
12910	12920	12910	
12780		12460	12570
	12330	12340	12335
	11935	11828	
11650	11835		
10370	10875	10234	10465
		10000	
	8088	7808	8245