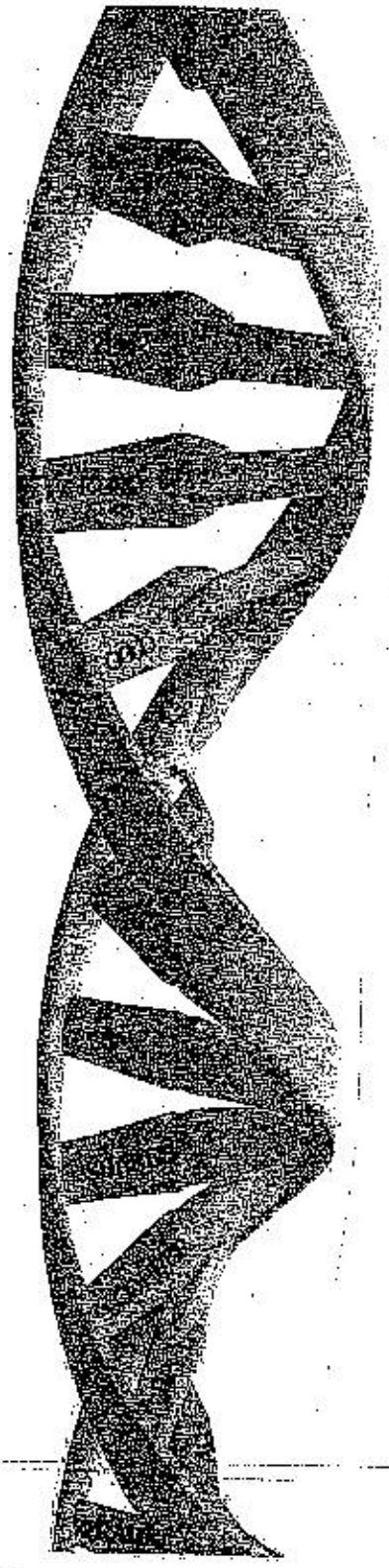
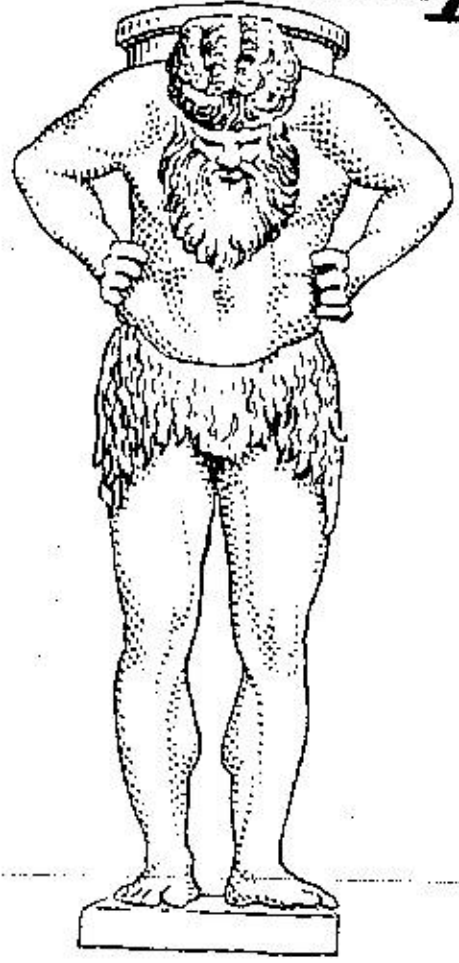


Armstrong Economics™

The DNA of the Global Economy



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

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Comments Welcome: ArmstrongEconomics@GMail.COM (Internationally)

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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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 1996 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 affects 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.



The DNA of the Global Economy

By: Martin A. Armstrong
Former

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A lot of people who have known me for decades have written to tell me that there has been sort of a free-for-all on my work post-1999 with some as bold to even plagiarize the **Economic Confidence Model** changing the name and others claiming to have discovered Pi. This seems to be a natural penalty insofar as those who the government throws in prison. Anyone who owes money to a prisoner seems to think it is a license to escape the debt. I have seen others who had partnerships and expected their families to be taken care of, cut off. People just at times will abandon all civility it appears during two events (1) when states imprison an individual, or (2) when there is a natural disaster and even the police can be seen looting.

I have no problem if people share what I have written and forward whatever you like. We are facing a very difficult period ahead and the more people who understand the events in perspective, hopefully the intensity can be reduced despite the corruption of governments.

What I discovered was not by some predetermined theory. What I have discovered came by the joint and truly astonishing gathering of people worldwide. The 1985 Economic Conference in Princeton was magnificent. We had serious people for the first time ever in a single place. Much of my thinking was forced upon me by having such a global client base. Without that, I doubt that I would have emerged with the understanding that I have today. I learned from the clients as much as they learned from me. I cannot emphasize enough my gratitude to our clientbase, for without them, I too would have been only a domestic analyst with blinders on who would have tried to reduce all events to a single cause of action that is somehow just American egocentric. But it is the **Schera Frequency** that is the eau-de-vie (water of life) that is a code like DNA that predicts the future.

$$3,144.6 \text{ days} = \left[\left(\frac{224 \text{ yrs}}{26} \right) * 365 \right]$$

PI

is not the actual source of cyclical activity. It is merely a proof that TIME is subject to geometry. This is incredibly important as a principle that established there is a field of science that must be explored and it exists in tangible form. It is an illustration that we as a people may learn from experience and modify our thinking and our behavior in the future, but where we lack that ability to learn and to progress, lies within our collective behavior. He who has the gold makes the rules! And because he can make the rules, he also thinks he

can just dictate to the markets and the people to do his will. When you have this sort of arrogance, you listen to no one and certainly not to the experience offered by history. This is why we had the collapse of Russian and the Long Term Capital Market bailout in 1998. It is why we have the current economic crisis that is far worse because it involved the entire debt market that has its tentacles into every aspect of economic activity. It is the debt market, not the stock market, that forms the true Telamon that supports the entire economy. The Investment Banks used this same model of He who has the gold, makes the rules! They assumed that by controlling the rules through political means, they can dictate to the markets what they shall do. We will never see any American Investment Banks criminally or civilly charged, for they play the same game as the state and thus they are exempt from accountability. They did not trade markets and always win because they are brighter than everyone else. They won, because they control the rules just like the politicians. If you think you have such power, you do not bother with even contemplating whether or not your power is subject to the forces beyond your control.



TELAMON

It was this dictatorial power that was behind Russia and China on the back of Marx that mislead those states into thinking they can dictate how the economy will run. The state collapsed because there could be no response and progress since they could not even see the evolution of the economy from an ivory tower.

Japan suffered the "lost decade" for the very same reason. The LDP believed it could control the economy by dictating what trends it wanted. While allowing the "free" ownership of property, I was shocked to see that major companies could not act on their own and the LDP prohibited hedging at the top because they thought if they could just outlaw selling, the Nikkei would never drop. That absurd belief destroyed Japan, and now while hopes are high, they are the same we saw in East Germany. There has to be a full retraining of how to be a real economy.

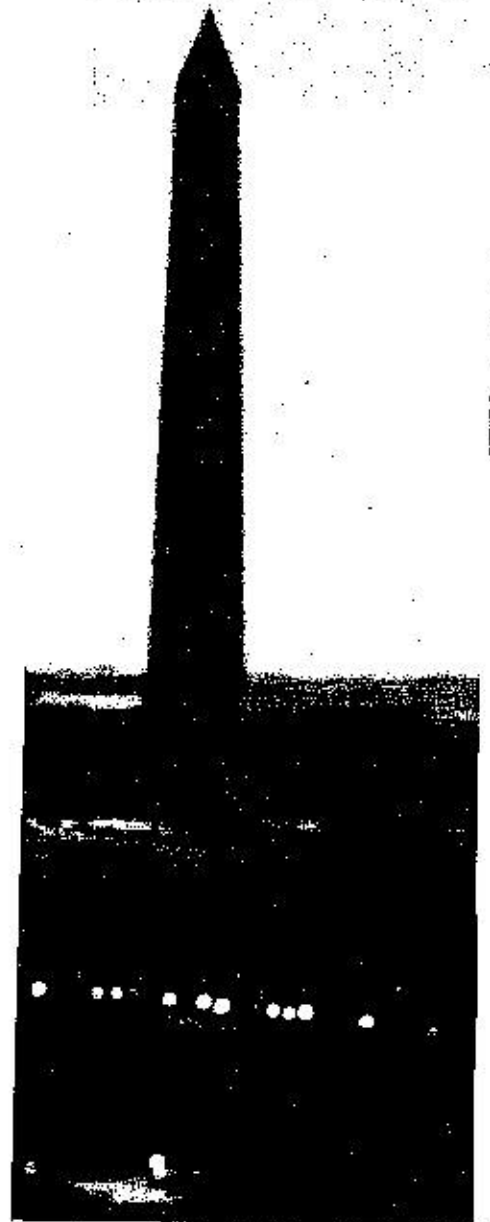
President Obama has surrounded himself with former bureaucrats who have no practical experience. He is trying the same doomed idea that he wants to force innovation in making the country "green" and you find people in the healthcare field gearing up. This is no different than what Japan and the former USSR and China did. They tried to dictate to the economy. So we have the very same problem as always. We learn from experience only as an individual, but society is incapable of ever truly learning and progressing because of the false belief that he who has the gold, can make the rules. This is why society cannot evolve without force (revolution), and it is why revolution always reverts back to the same system - ie Napoleon crowning himself; Oliver Cromwell putting his picture on the coins just like the king; America assuming absolute immunity for all government judges and prosecutors, the same precise injury in the Declaration of Independence (mock trials).

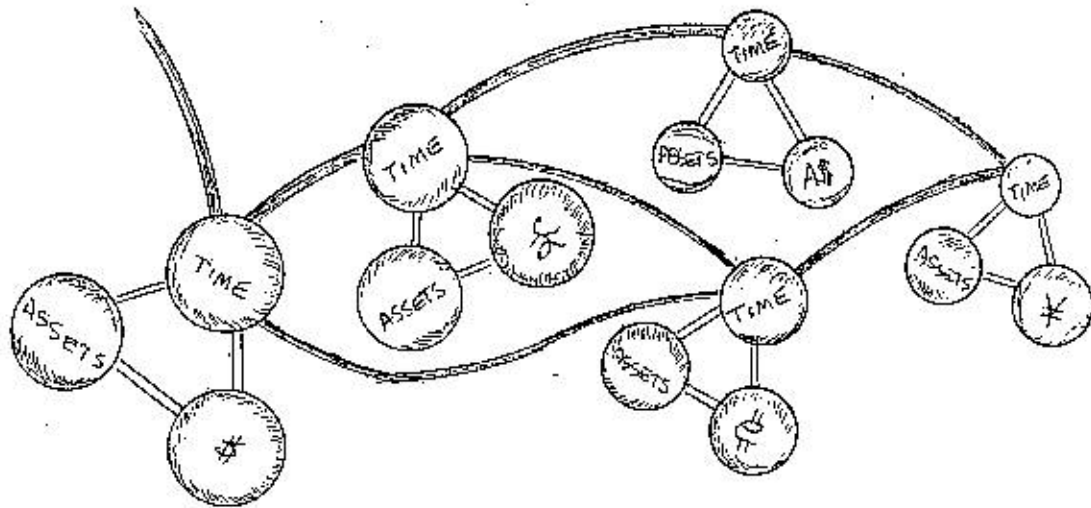
Power Play

The Power Play going on in Washington is all about control. What the Obama Administration fails to understand, it is embarking down that very same road as the LDP followed in Japan, and what they present to the people, is that the fault was with the reduction in regulations carried out by the Republicans.

This bullshit story satisfies the press and those who just hate the idea of the "rich" as well as every corporate conspiracy that has ever been dreamed up. The real cause is that there has been far too much regulation that drove capital and jobs away from the United States, yet there was NO regulation of those who made an effort to in fact play the same game with the politicians in creating the rules.

The assault on the offshore tax shelters is going to come back and wipe out the best plans of men and tyrants. The funds offshore are the main and often the exclusive source of capital for the hedge funds. The hedge funds are the buyers of the US government paper, because cash cannot be insured being just left in bank accounts beyond \$100,000. Thus, hedge funds buy government paper and by now searching for who has accounts offshore, that will migrate to hedge funds by (1) forcing withdrawals and (2) the hedge funds will be targeted next to compel them to produce lists of investors. No hedge fund operated by an American onshore will be safe and the prospects of a solid recovery are being in fact snuffed out by the Power Play in motion now.





Running around the world exposed me to how investment decisions were reached in all nations. I worked with the Arabs during the 1970/80s, the Europeans, Australians, Asians from Japan down to Singapore and even was invited by the Central Bank of China to fly to Beijing. Having clients around the world and having to solve problems, opened my eyes to comprehend that the **Global Structure** of the world economy was vastly complex, yet at the same time, perfectly simple.

Currency had become a language of our global economy. Every person translated any foreign involvement into their home currency and that determined whether or not to even act be it by trade or investment. **Capital Flow** among nations was subject to the changes in currency. This was starkly different from a gold standard, and negated everything taught in an economics class making most theories just irrelevant. Yes **Adam Smith's** insight known as the **Invisible Hand** was still alive, albeit slightly modified in that the self-interest would now be filtered through the currency fluctuations at the end of the day.

The other theory to survive was that of **David Ricardo** and his **Comparative Advantage**. This too would be slightly modified by the overlay of a floating currency that would now effect the international value of what was at issue in the **Comparative Advantage**.

The **Global Structure** is rich and very dynamic rendering most economic theories just gibberish. The notion of **Efficient Market Theory** has been a byproduct of the American egocentric view of the world. It may have its roots in a "just price" going back to **Saint Thomas Aquinas**, but it has no place in our modern economy. Notions of looking at book value and earnings related to price, are all subject to the changing winds of chance, because we are really living in a complex international world.



Irving Fisher
(1867-1947)

Some have caught a flicker of what I speak such as **Irving Fisher**, but they stopped shy of this trait. **Fisher** of course was a famous economist during the great depression. What made him different, he was also a trader and amassed a fortune from 1910 onward. He helped to pioneer the fields of capital theory and contributed greatly toward the modern theory of monetarism.

I am sure that when I am gone they will no doubt compare me to Irving Fisher for we both have had a "crusading spirit" that led us into multiple fields of study. Irving at least caught a glimpse of suspension in the gold standard insofar as war was concerned. He watched both World War I and World War II, and between 1912 and 1935, he produced 331 documents expounding his vision for the "compensated dollar" that he saw as a new currency of constant purchasing power. Some viewed his ideas as a "commodity dollar" rather than limiting the backing so-to-speak as exclusively gold. Irving proposed to then define the dollar in terms of a given value of gold that floated according to an index of commodity prices of a specified set of goods.

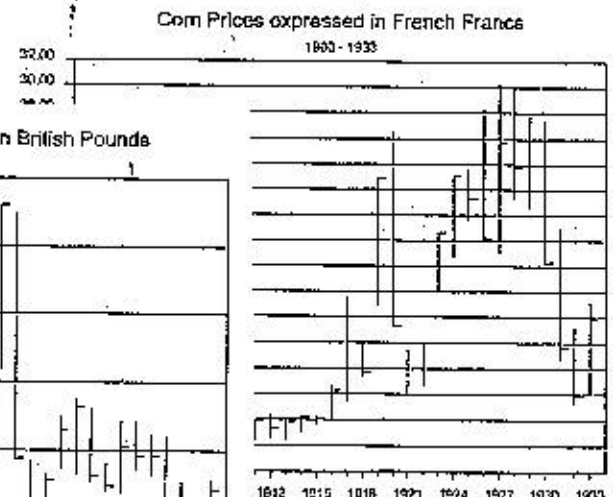
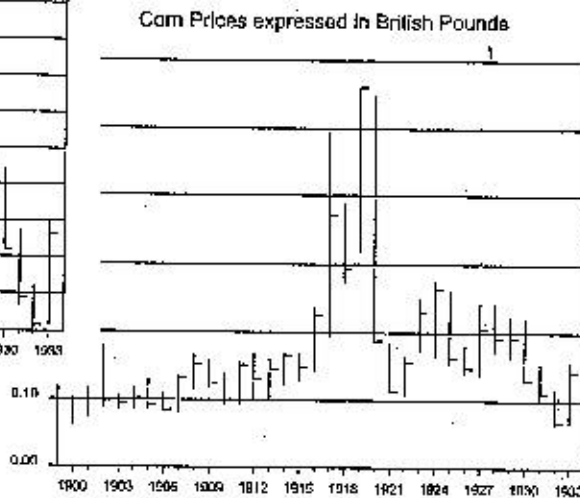
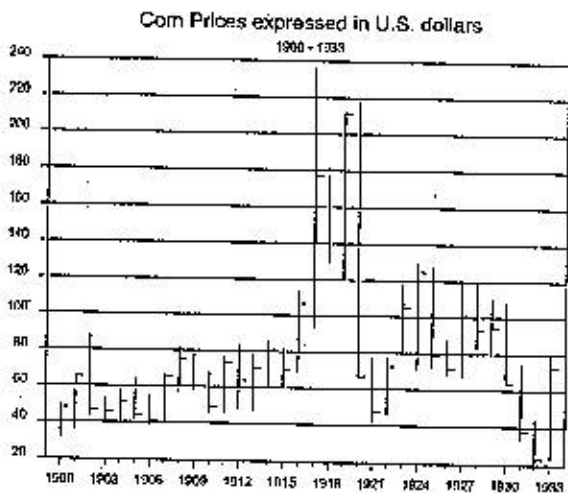


John Maynard Keynes (right) with Treasury Secretary Henry Morgenthau, Jr 1944 (Bretton Woods)

Irving is also famous for his statement that the US stock market nearing its peak had made the comment that we reached a permanent plateau. This illustrated the problem with the concept of "value" and a "just price" and that market behavior was somehow rational.

John Maynard Keynes rose to the top not because he did anything to forecast the high or even the low. What he did was generate a theory that government had the power to then manage the economy and that led to the fact that government heard what it wanted to hear insofar as they were the salvation for all of mankind. Keynes in many ways, justified the root premise of Karl Marx that the state should be in control.

During my 20s, I saw the world through different colored glasses. By my 30s, I was firmly entrenched in understanding the true Global Structure. When I was 36, years of work was put together in the **Greatest Bull Market In History** and that I wrote from my new global perspective thanks to clients I had around the world who helped me see what I would have missed. So that book I wrote showing the same market often charted in a host of different currencies. What I had come to realize, was that a bubble top like in NASDAQ in 2000 or the Nikkei in Japan back in 1989 or even 1929, could only be understood from a multi-currency view. Real bull markets of significance, only happen when the gains are reflected in all currency values from Europe to Asia.



----- The vast majority of fundamental analysis based upon the idea of efficient markets and just value, are all pretty much worthless for they will never explain an event in any time in advance, and even with hindsight, we are less than satisfied with the explanations the emerge. There is no such thing as a "just price" in market theory. Markets are very efficient, but only from an international perspective.

When the 1987 Crash hit, people called their broker and asked what the hell happened and why did the Dow Jones fall 500 points? The response was scary. "I have no idea!" The truth of the matter was that all of the fundamentals were the same. Nothing took place domestically other than the stupid idea of creating the G-5 to manipulate the dollar down to create a more competitive work force and that would result in more jobs and the lowering of the trade deficit. This was the brain-child of James Baker.

This illustrates our problem. (1) There can be no efficient market theory as related and preached by many analysts. That assumes a closed economy and currency has no impact. That is just insane. Foreign buying is the concentration of capital. It was the foreign buyers that drove the NASDAQ up in 2000 as was the case for the Nikkei 225 in 1989. It is that external capital that comes in and then makes all the difference. That is the global capital concentration.

(2) The efficient market theory also presumes no change in confidence between the private and the public sectors. There is a flight to quality that has nothing to do with a "just price" for when confidence in government is high, stocks have traded well below their liquidation values, and then at times when confidence in government falls, stocks rise as a hedge against government as they did coming out of the 1932 low.

The theories that pretend to be able to predict whether the stocks will rise based upon earnings, are flawed from the view that markets always overshoot & undershoot so trying to predict what "should be" in a nice and perfect world, is just a little utopian for real value. We have to be realistic and avoid the pie-in-the-sky theories.

What should happen, usually does not. Markets are very efficient. However, to even understand that, we must grasp the idea that only the rise in prices and OPEC during the 1970s, forced a response of creating solar energy, wind energy, and alternative fuels. As long as something like oil is cheap, there can be no such thing as even bothering to create a new solution that will be more expensive anyway.

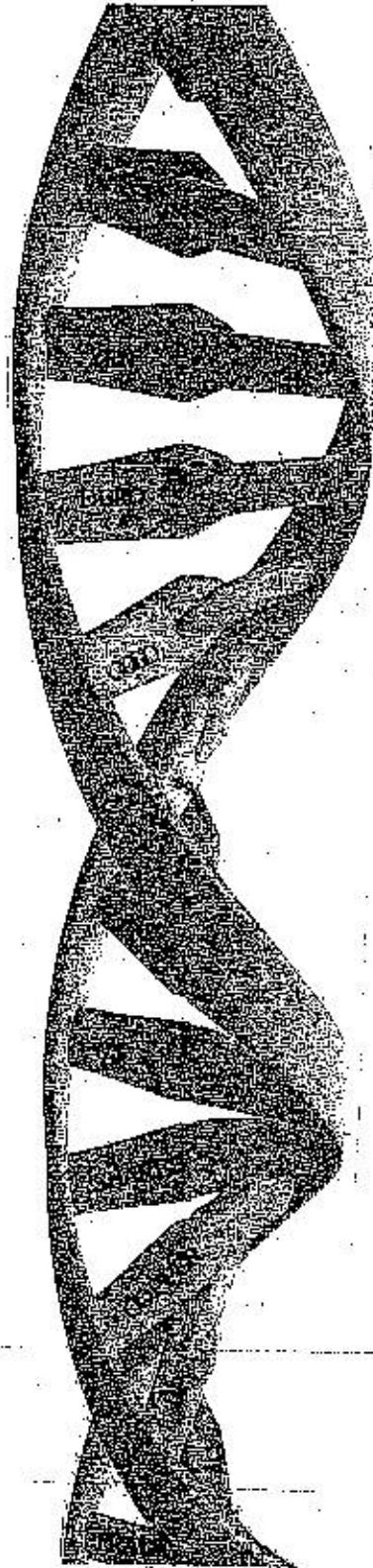
It was the Great Depression that forced farmers to become skilled labor. In 1900, 40% of Americans were still farmers. By 1980, that fell to 3%. So what we are doing is responding to the markets. In this sense, they drive all activity and from ancient times they were the driving force behind migrations. We may not like the forced changes that are compelled upon us by the "free markets" but that is how they are efficient. Not in the sense of how the populare analysis portrays the theory.

In this sense, Newton's laws of motion enter. A force applied in one direction, will compel and equal and opposite reaction. This principle is true even within our economy. We must respect that just as we can learn and grow individually, society fails to generate that collective sense of knowledge. Hence, as individuals we retain free will to participate in a boom and step out of the way for a bust based upon our individual knowledge. However, the state cannot advance because it is in a perpetual phase of selfgrandiose visions of supreme power.

The value of anything is constantly changing because its true international value changes on a minute by minute basis for its value is honestly reflected in a basket of global currencies. Whether it will truly rise is determined by that international value. To attract capital globally, it must rise in terms of all currencies.

So you see, whatever the theory that once was, is no more. The floating exchange rate system has altered everything. Those theories are long gone and were based on a one world currency such as gold. Once that vanished, we entered a completely new era and few have understood it domestically, in the US for they never look at the world wearing different colored glasses for each nation.

The DNA of the Global Economy



The true hidden & vastly impressive **Global Structure** to our social-political-economy, is marvelously dynamic and a vibrant creation of incredible order masked by a veil of true complexity. When I began my schooling in computer engineering, a computer was still the size of a room that had been achieved with the invention of transistors that enabled it to be shrunk down from a football field using vacuum tubes. With the invention of integrated circuits, we had visions of now desktop computers. Nevertheless, my professor showed us the RCA Spectra 70. He then made it very clear that we had to know every aspect both hardware and software before you would pass. I look at this machine that was the size of a room, and thought he was nuts. There was no way one person could understand all this gear. For months I took my notes with little clue as to what the hell was going on. Then he put up on the board a simple **and-or-circuit** that was basic simple magnets. Putting 8 in a row and charging them either plus or minus, allowed one to store a letter or a number in binary code. All of a sudden the blood rushed in and at last I got it. A computer was just a ton of these things, with the various wiring to allow reading and looping. It was a simple core structure over and over again.

The **Global Structure** of the economy is the same thing built upon self-interest, yet we are staring at a machine that is so vast, we are intimidated by size.

The core structure is not unlike DNA. There is a code by which tomorrow is determined, or if you will die from a stroke because that is the curse of your family.

What exists is a dual key structure of order. (1) is the **Sixth Dimension** I have defined as the inter-relationship of all markets tied together with all economies. This is filtered through currency, so to determine whether there will be a real bull market, depends if that is rising in all currencies. When the upward advance is purely the locate currency, then we are dealing with a flight to quality trying to seek value from the declining purchasing power of the local currency. When it is rising in terms of all currency, then we have a global capital concentration. That is the stuff the real bull markets are made of.

(2) is the **Schema Frequency** where the dynamic structure is coded within sequences of vital patterns that repeat in strings like DNA and thus map the very future before we can see it. It was the 1906 San Francisco earthquake that set in motion the creation of the Federal Reserve. It was the 1929 Crash that set in motion the creation of the **SE** and marked the transition from farming to skilled labor. This allowed America to be what it became just as WWI & WWII made the US rich as a arms dealer and provider of food.

The future is coded in a sequence. That code will have to wait for my release.