12/6/09

Dear Kris;

Thank you for going to bat. The BOP doesn't want me to make any public statement. So I can't write a thankyou letter for publication. Here is my next piece on stock markets. I will do Agics Oil & debt before year-end. Here is also a Declaration in Washington DC. I'm pushing for bail in that court because they claim it's conservative, but fair. We will see.

All the Best

Marty

You can post this too

Armstrong Economics ™

The Dow &

The Future

We are clinging to old ideas

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

 December 6th, 2009

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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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.

The Dow & The Future

We are clinging to old ideas

By: Martin A. Armstrong

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

CAPITAL FLOW ANALYSIS is the key to understanding how the world economy is starting to change direction and where it is headed. I do not see us heading into a **DEPRESSION** that is just a repeat of the past. With each turning point in the global economy, nothing is ever identical. It's like having children. They are a mixture of DNA between two people. We can see physical resemblance to one parent over another, and we can see personality traits. But what we do not see is a perfect carbon copy. When we look at major turning points in the world economy, there are numerous key variables all in constant movement so when the event takes place, we can get a very similar effect as it was in the past, but the mixture of variables dictates the outcome will **NEVER** be a carbon copy of the past. We resort to history in order to see the interaction of the variables, but we must study the effects and track individual fundamentals to comprehend our own posterity and present circumstances.

I have from the outset warned that the high in 2007 that took place in the stock market **would not be a major high long-term and we will see new highs in the immediate years ahead.** I have also warned we are in the throes of a debt crisis centered (1) in real estate, and (2) government. This will be a vital component in understanding how the stock market can explode even with a economic decline in productivity measuring unemployment and property values for example. This is what I call a **SECTOR SHIFT** in the **CAPITAL CONCENTRATION** within an economy that drives the entire boom-bust cycle in and of itself. In other words, capital will flow from real estate into things like gold and stocks.

Real Estate is going to have trouble even in an inflationary expansion because of (1) availability of 30 year money is going to contract reducing the "leverage" that will have a downward pressure on prices, (2) the generational cycle of baby-boomers will be natural sellers to extract life savings they see as cash but the market sees as increasing the "leverage" in the system, and (3) a debt crisis in government that federally contracts the duration of money available while the state governments continue to resist reform causing taxation to rise relative to value of homes. Add to this trend a declining dollar, and this will further create a dis-investment trend among foreign capital investors toward USA assets in real estate.

The inflationary spiral that lies on the horizon will have its greatest effect in gold and even the stock market. This will have an effect on real estate, but this will be more of a support mechanism preventing prices from falling to zero or absurdly low values such as 30 cents an acre for land in the Great Depression. That took place in the face of a rising dollar for on that cycle the USA was the creditor nation and Europe was the debtor. Today, the creditor is China and the USA is hopelessly in debt. With the variables lined up in this direction, the dollar **cannot** rise as a safe haven against the collapse in debt without war.

For you see, we **must** understand the interrelationships of all segments of the economy in order to comprehend our future. This is why **FUNDAMENTAL ANALYSIS** just will not work. It is far too domestic in its focus, fails to comprehend external forces that can overwhelm domestic issues, and in no way contemplates international value that dictates whether there will be foreign buyers or sellers based upon currency. We can presume all we want that lower interest rates are bullish, but explain how rates fell from 6% to less than 1% during the **Great Depression** and the DJ Industrials fell by 89%? When you take the fundamental claims and line them up with the historical trends, you come away with a realization they are just hot air with no substance.

CAPITAL FLOW ANALYSIS is a name I gave to my observations running around the globe. What you must understand, is that under a **GOLD STANDARD**, capital did not rush around the world as it does today. For capital to flow from one country to another, it **first** was dependent upon **trade**. There had to be a real advantage to doing business. This was in fact the substance of **David Ricardo's** (1772-1823) **COMPARATIVE ADVANTAGE.** If one country could produce something cheaper than another then it was beneficial to import that item and spend one's resources on something else.

Secondly, capital invested in a foreign land only if it saw a real profit that exceeded what it could make domestically. Today, the **FLOATING EXCHANGE RATE** system of currencies has completely altered the way capital now rushes around the world. A local investment can decline by 5%, but if the currency then rises by 20%, the foreign investor will now still make 15% on currency with a domestic loss.

In today's world, capital is rushing around the globe for investment, not just trade. Floating Currency has altered **all** economic theories and obliterated most. The world as we once knew is no more. Unless we open our minds and our eyes, we will go down in flames. This is not my **BELIEF**, for it is based upon my **OBSERVATIONS** of working around the globe with the movers and shakers of capital. There is scarcely a capital segment I have not worked with from being put on telephone conferences in the middle of an OPEC meeting to being invited to China. Even when Citibank got into trouble with mortgages after the S&L Crisis, there was to be a major global meeting in Asia. All the offices outside of America, wanted me there for this internal meeting. They even paid in advance, only to have New York reject it for they did not want to air their dirty laundry in in front of someone from the outside. What the foreign offices could see, New York could not. International capital flows.

CAPITAL FLOWS have dwarfed trade flows. I fail to comprehend how universities still do not teach anything on this subject. This is the real life-blood of the global economy today, yet academics and politicians are still operating on ideas that date back to ancient days of the **GOLD STANDARD.**

When I was invited to fly to China in the aftermath of the Asian Currency Crisis and met with the Central Bank, I found the experience enlightening. When I sat down, I was apprehensive at first. Trying to explain global trends to bureaucrats is a delicate problem. For example, the board of a major Australia mining company effectively ordered its chief financial officer to meet with me for he lost a ton of money on hedging. In trying to discuss the problem, he would just reply that perhaps there was no cycle and any correct forecast was just coincidence. When I saw we were getting nowhere, I had noticed there was a dynamic quality to his thought. I asked him what was his background? He got real defensive, and suddenly admitted he went to school and became a nuclear physicist. He now thought I would belittle him for not being trained in economics. I said great! I told him now let us discuss the market from the 2nd Law of Thermodynamics. He looked at me and his eyes showed he was startled. He now responded. "My God. There has to be a cycle!" I said yes and said I never met a CFO with only a degree in economics.

When I sat down with the Central Bank of China, I was completely stunned. It was like sitting down with a bunch of traders. These were not academics nor bureaucrats. The people I met with were real. They then explained that to qualify to work at the central bank, they had to work on trading desks in the West at major banks. These were people who had hands-on experience. I was so impressed for we got right to the heart of the problem - **CAPITAL FLOWS.** They understood what I was writing at that time and how capital was shifting from Asia and starting to move back from 1994 toward Europe in anticipation of the coming EURO. That is why they called upon me. They had understood my explanations of how the world had changed and that the key was now a new way of analyzing trends - **CAPITAL FLOW ANALYSIS.**

China also gave me a tour of a most interesting instalation. I was taken to a building surrounded by major huge satelites pointed at the sky and guarded by tanks and troops. I was taken inside and saw a room with several hundred people who were surfing the internet gathering knowledge. I was then taken to a meeting room where every piece I had ever written was stacked in piles on the table.

I was shown that they were monitoring every price in China on everything. I had no idea that there were 249 varieties of tea in China locally grown throughout the whole country. They were not inferring with the economy. Instead, they were doing what I had written about many times. They were just **observing** what was taking place and trying to figure out what was developing. They showed me tea prices and were amazed that the same tea was selling at different prices in different parts of the country. I asked where the tea was grown? I immediately had noticed that (1) the price rose the further the tea traveled from its origin, and (2) that prices differed according to quality. In other words, there were transportation costs and the **"Grass is Greener Elsewhere"** effect. In Sydney Australia, I saw a New Orleans Steak House, while in New York you will see an Australia Steak House. It is somehow perceived to be more exclusive if it comes from some other place.

What truly impressed me, was that they were doing what I always wrote about that **true knowledge** emerges from experience. This is why one cannot understand a subject until he actually does what he has studied. Our most significant mistake is creating higher learning taught by people who have never done what they teach. There is a indescribable quality that one can know every aspect of a subject, yet he is blind without experience that opens the eyes and allows one to see dynamic structure hiding behind the facade of order and control.

China was doing what I had always hoped would be done in the West. Just for once let us look, observe, and learn, instead of the constant effort to manipulate and change the economy forcing one's will and desires even if they are insane. This is why China has in fact managed to evolved from a communistic state into a free market state (not fully as yet), without blood spilled over the streets. China understands there was a cycle and that they could not prevent the change. Instead, they have gone with the flow. While this is not a complete step yet, it is a step in the right direction that could make China the new center of the world economy - the new Rome.

The reason I bring this story up at this time, is due to an important statement that is getting lost in the West. On November 16th, 2009, the Wall Street Journal front page had a story **"China's Blunt Talk For Obama."** What I am trying to provide you with is background to what this "blunt talk" displays - dynamic knowledge and understand of **CAPITAL FLOWS** that I have written about since the early '80s.

> "Lin Mingkang, chairman of the China Banking Regulatory Commission, said that a weak U.S. dollar and low U.S. interest rates had led to 'massive speculation' that was inflating asset bubbles around the world. It has created 'unavoidable risks for the recovery of the global economies,' Mr. Liu said. The situation is 'seriously impacting global asset prices and encouraging speculation in stock and property markets.'"

WSJ, 11/16/09, Front Page

In Washington and in academic circles, these words draw a blank stare. They have no concept of how the world economy moves and thus fail to realize that domestic policy objectives are exported in a **FLOATING EXCHANGE RATE SYSTEM.** The USA is doing the same stupid solutions that the Japanese did that destroyed their economy.

We have to open our eyes to how the real economy functions. It is time for us to stop the debt, the wars, and begin to see the potential for a new world without the bitter hatred of trying to always take someone else's money for our personal gain.

Cycles are HOW energy moves. We may NOT be able to alter the cycle, given the fact that it is so dynamic and includes the natural forces of the universe as well such as weather. Nevertheless, like Joseph in the Bible who warns Egypt that a 7 years of plenty will be followed by 7 years of drought and preparing for that cycle will prevent starvation, we too can do the same.

If we understand HOW the cycle will function, we may not be able to alter the events any more than we can stop global warming. But we can alter perhaps the main amplitude. There is a 300 year cycle to the energy output of the sun where the temperature fluctuates within a 15% range as has been demonstrated by ice core samples. We have no more caused global warming than we have caused the earth to rotate. What is possible is that the green house gases have increase the amplitude of the natural event making it perhaps warmer than the natural cycle would have been, but we have not in fact created the cycle.

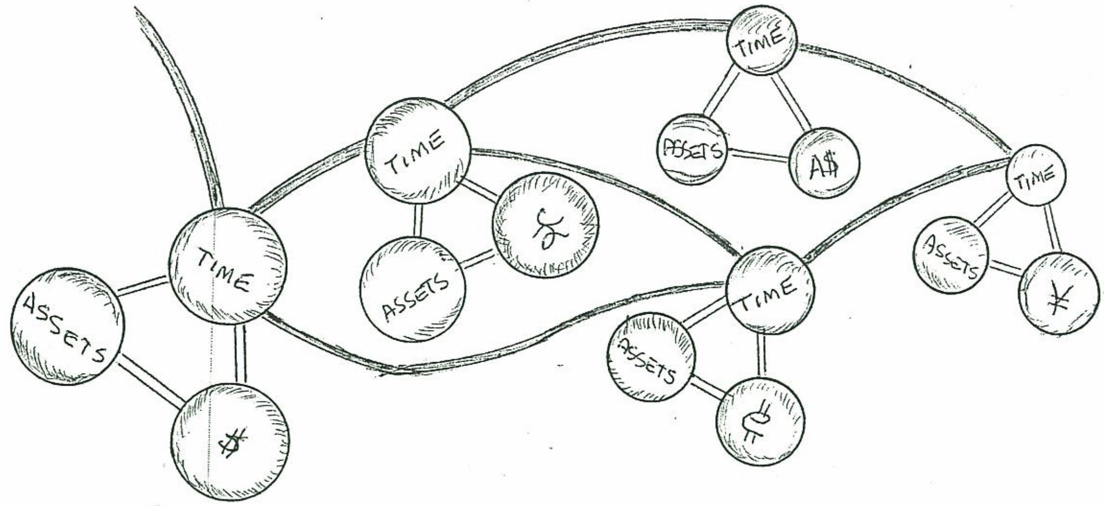
Indeed, this is the same effects in China. There could have been revolution and blood in the streets, or government can in fact realize times have changed and it is best to go with the flow. This is something we desperately need to understand in our Western culture. The debt crisis is just going to explode, and everything will be lost. Fingers will be pointed and there will be war and blood in the streets. Everyone will try to escape the blame and push it to someone else.

We are entering into a dangerous zone of Twilight in Western Culture. We can in fact work this out. However, the first step is figuring out that there is a real problem and stop the nonsense. Debt has always been the death rattle of society. We have taken debt to levels far beyond every nation in history. We have seen a crisis in debt now emerge even in Dubai. It is time to wake up and smell the roses before the funeral. We can do this, if we stop the nonsense and learn from observation.

We are clinging to old ideas and refuse to understand or review how to manage the economy. The Obama administration is only concerned about getting installed their main social agenda. Likewise, Republicans are also clueless for they have failed to see how their insane legal prosecutions of just about everyone but those who created the mess protecting their friends, has sent more money offshore than anyone can imagine. Their pure obcession with right-wing religion blinds them to the seriousness of their policies. Dead in the middle, one finds a void with little hope of changing the course of events.

If we analyze the words of Mr. Liu, we see a reflection of real world thinking. He sees the low interest rates and the declining dollar as a means of funding the world just as what took place in Japan. The Japanese were trapped by this old world thinking. They kept interest rates at virtually zero thinking this would stimulate borrowing and spending and get the economy back on line. It did not because of **Ricardo's Comparative Advantage.** It became self-evident that if one borrowed at 0.1% in Japan and could earn 8% in interest in the USA, then the **comparative advantage** manifested in what became known as the **Yen Carry Trade** - borrowing in yen and investing in dollars.

Today, this is now reversed. People are borrowing in dollars, and investing elsewhere. There is little domestic stimulation from the low rates of interest just as took place in Japan. This is why I have repeatedly warned that most economic theories are worthless save **Adam Smith's Invible Hand** and **Ricardo's Comparative Advantage.** Both still work but globally now and have expanded from trade to include capital investment as well.



What we must understand about **CAPITAL FLOW ANALYSIS** is that this is something that I developed through **OBSERVATION**. It did **not** truly exist pre-1971 during a gold standard. There we had predominant flows of capital due largely to trade. There clearly was some dynamic global investing, but this was limited to the real bricks & mortar type of international investment - creating actual business operations.

What has taken place under the **Floating Exchange Rate System,** is that capital rushes around the globe for a far greater number of reasons than it did previously. Just look at the crisis in Iceland. Here, borrowing was car-carried out in foreign currency to reduce the interest costs. That inherent risk has wiped out the economy as their currency plummets making the loans even more disasterous when calculated in foreign currency. The same sort of capital flows effect Australia in the '80s and don't forget New Zealand.

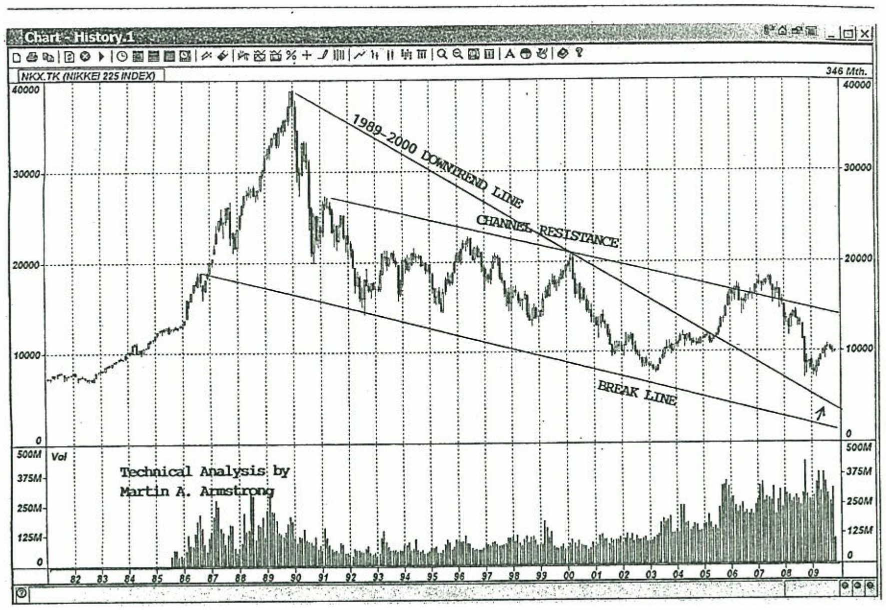
The 0.1% rates in Japan caused capital flight that funded the US mortgage market and helped to create the economic bubble we now have to deal with. The low interest rates in Japan did nothing for the economy but fund overseas use of funds. The US is doing the same right now that is exporting cash fueling bubbles elsewhere. This is what is expressed in the idea of **CAPITAL FLOW ANALYSIS.** What we must now look at is currency and view everything that surrounds us in terms of every currency. This will reveal if they would be a buyer or a seller of local assets irrespective if the local assets rise or fall in local currency.

One of the reasons the CFTC was also claiming I manipulated the **World Economy** is because I advised a lot of the takeover boys internationally, showing how to buy assets in one country whose currency would rise such as in the UK, yet borrow in another where the currency would decline against the asset. In this way, I was able to convert debt to an actual performing asset for the asset would rise in value, both net and in currency, while the debt was depreciating against that asset due to the decline in the currency denominating the debt. For example, all the funding for the takeover of the British Pubs was done in this manner using a different currency.

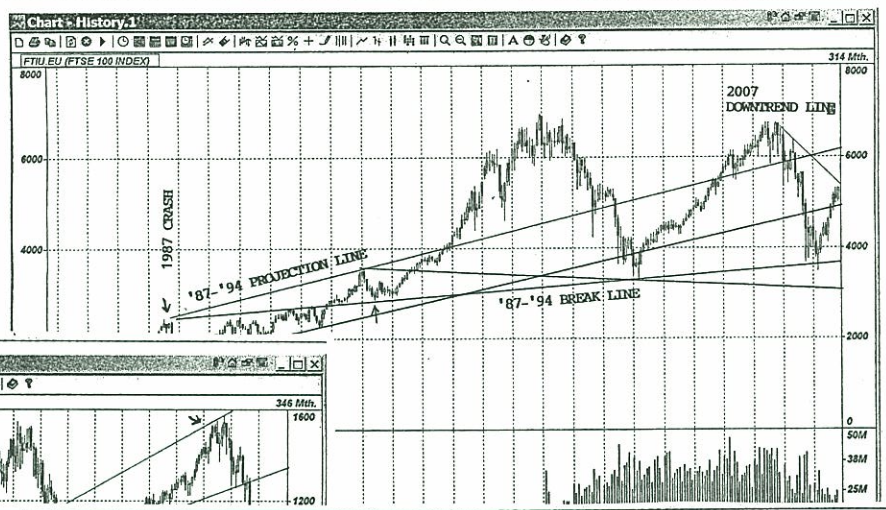
Everything has an **INTERNATIONAL VALUE** that fluctuates constantly on an instant basis. That value is determined like language insofar as it must be translated into a local language to enable communication. This is also taking place in finance. Business decisions will be made as well as investment decisions based entirely upon a translation (calculation) of the foreign asset value into local currency filtered by the **CONFIDENCE** in doing any business with that country in general.

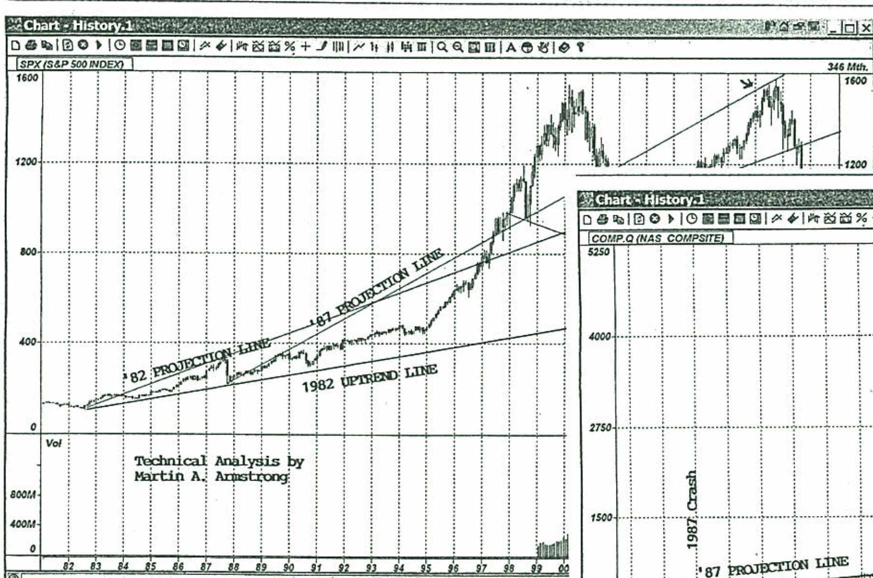
It will matter not if stocks are rising in value by 500% per day if the local currency is declining by 800% per day such as in Germany during the hyper-inflation. One of the earliest global hedging projects I was called in to do in '80s was an Islamic bank had to open in Turkey for religious reasons, but the Turkish lira did not trade and was declining 10%+ monthly. I had to create a synthetic hedge using tradable markets that would mimic the Turish lira at the time. That is what I mean by being a **global-fixer-upper.**

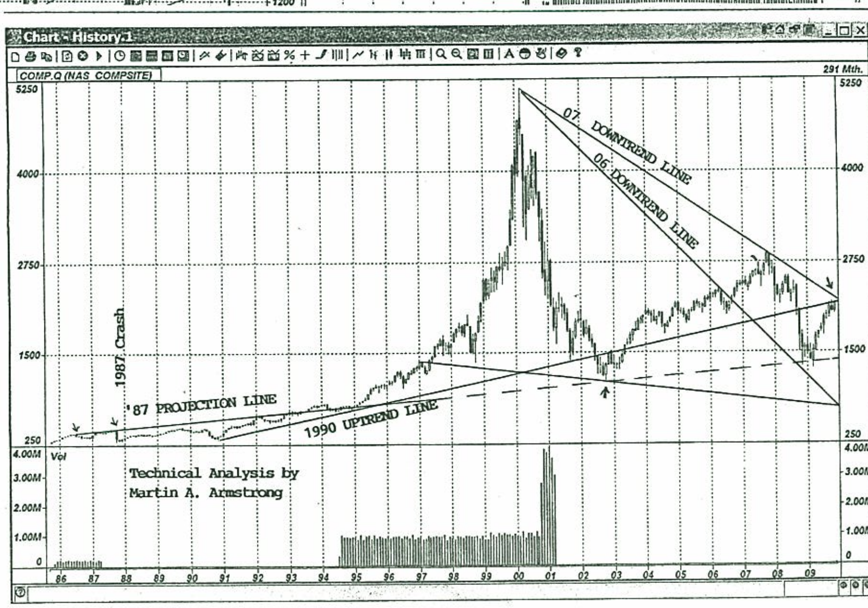
What I am offering here is a world view of major US and UK FTSE share markets. Notice that when we line these up against the Japanese NIKKEI 225, we can see that after the 1989 Bubble Top in Japan, other share markets rallied to new highs but not Japan.



The Japanese economy was so bad from an over-regulated perspective, that there was little confidence in the future. Everyone began to now look outward to the world to invest. They took yen and converted it to other currencies. But foreigners had also began to borrow yen and take it elsewhere. This became the famous Yen Carry Trade. What China is talking about is that the reverse is now taking place. Dollars are everywhere and interest income is not there. What is happening, is the reverse of the trends reflected in these charts. Just as yen borrowing funded the USA and Europe, now we have the dollar funding overseas markets. We ourselves were one of the biggest buyers of dollar paper during the lost decade of Japan taking yen and converting it to dollars. The Western indexes rose as did the economies aided by **capital inflows** from Japan. Currently, the precise opposite is taking place and this is a major concern to China who understands what I am writing about. The world has now changed. We simply have to see how to manage the economy is a whole different ball game.







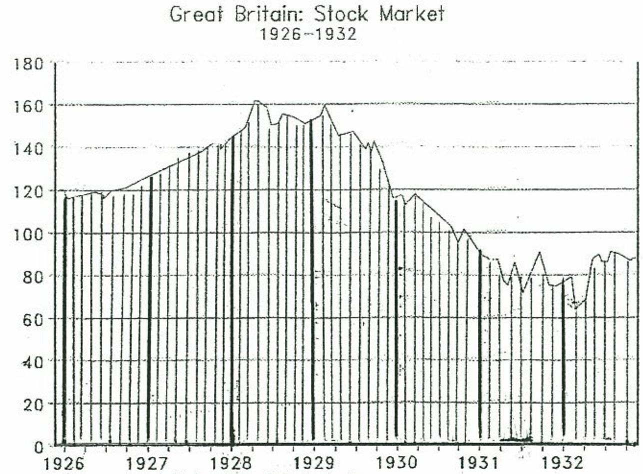
If we just look at the main world stock markets from 1926-1932, in no case do we see a bubble top. Both Japan and Italy peaked in 1926. Germany peaked in 1928 following its hyper-inflationary period in early 1920s. The British market peaked in early 1928 and did manage to create almost a double top in early 1929. France made its major high in early '29 when Britain was just testing its high.

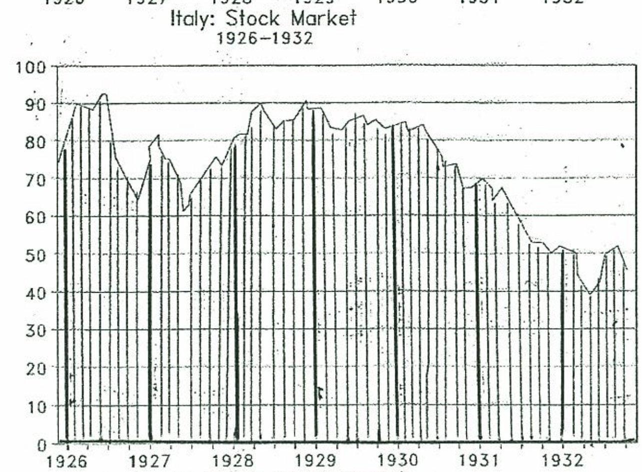
What we see is the **capital concentration** shifting to the USA creating a bubble top for September 3rd, 1929. This was akin to the high we saw in Japan for 1989 also on the back of **international capital flows** that had caused a significant **capital concentration** in the United States.

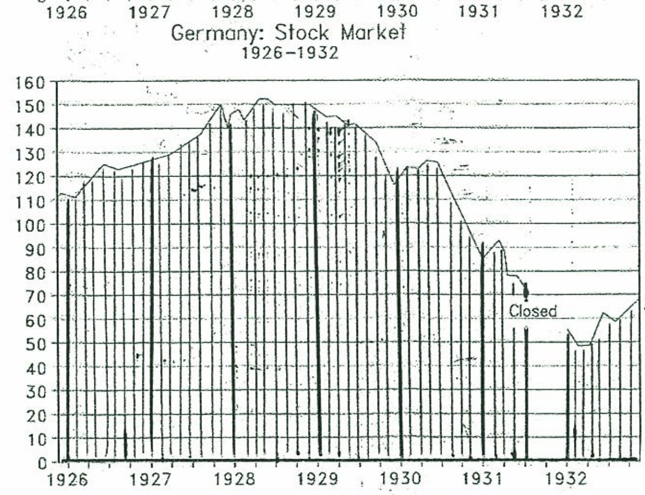
Capital Flows were pointing toward the USA because of a debt crisis in Europe where eventually most countries went into default in 1931. The capital markets read the signs and thus **capital flows** began to seek safety in the United States.

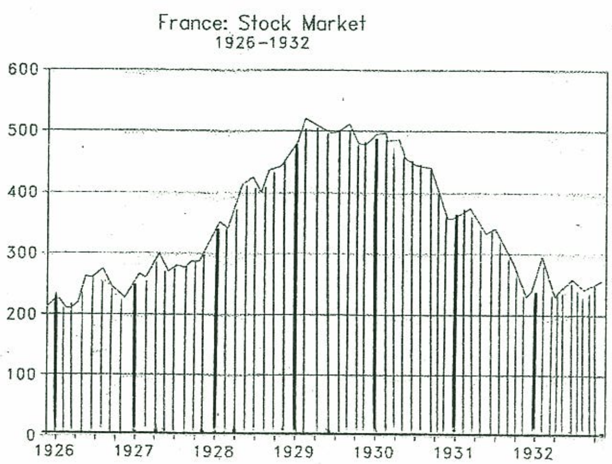
Hopefully, you can start to see that if one is only monitoring domestic events, you are going to be the victim. We must open our eyes and see the world that truly surrounds us on all sides. This is a dynamic interaction that creates the trend and government fails to comprehend what is taking place.

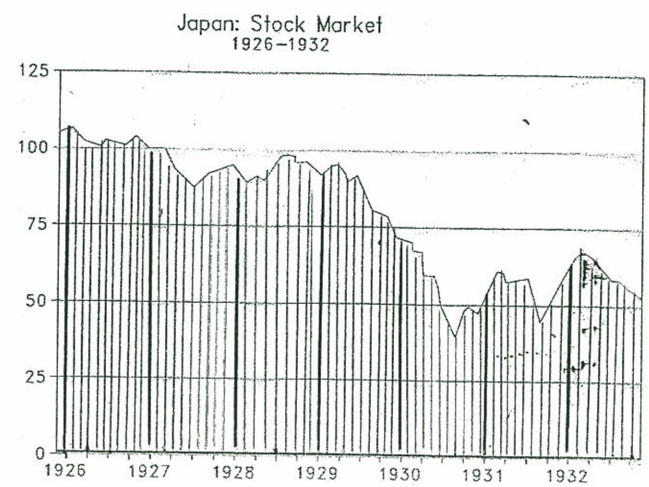
We become seriously disadvantaged by the dominance of lawyers in respective positions for they know not what they do, and take a **myopic** perspective that leads to persecuting those in the field like they just tried to do with Bear Sterns. This is not the way of the future! We have to stop this nonsense and for once start to observe the world in reality. We must take the leap to global thinking.

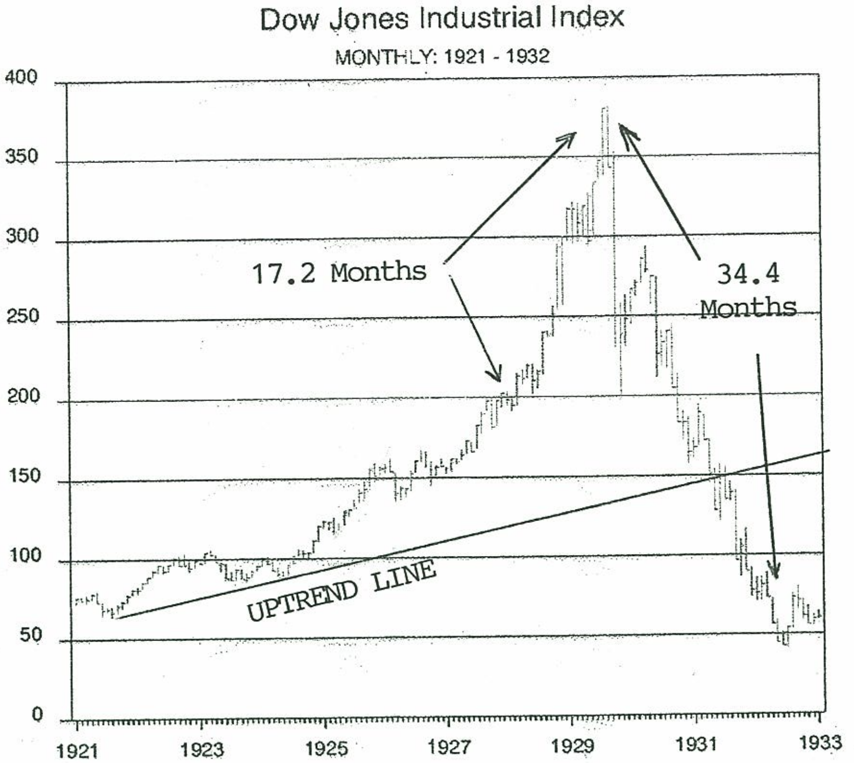












As we can see from the above chart covering the Dow Jones Industrials between 1921-1932, there was a real explosion in price after 1926 going into 1929. This is the **capital concentration** that was both (1) a shift from previous sector rallies largely isolated to railroads shifting to industrials, and (2) global capital shift with an **international capital concentration** into the United States. Hence, this was no longer purely a domestic-driven speculative bubble.

I have explained how the 8.6 year cycle has a harmonic or derivative of multiple intervals of this time. We can see how the rally exploded for the last 17.2 months into the major high. The full blown collapse took 4 of these cycles we measure (4x8.6) as 34.4 months from the September 1929 high into the July 1932 low. I find it curious that those who are holding up a silver cross and hoping to stop me talking about the natural forces of cyclical activity, chose to remain blind to empirical evidence that this frequency dominates everything. Instead of trying to understand how and why all things move cyclically, they are scared to death just to look and see.

What I have learned has been not based upon theory where I began with some predetermined view that I had setout to prove. I was not at all interested in winning the Noble Prize or being remembered for some theory. I was bluntly just a hands-on guy who enjoyed the game. I was uniquely shaped by the clients and we explored the world together.

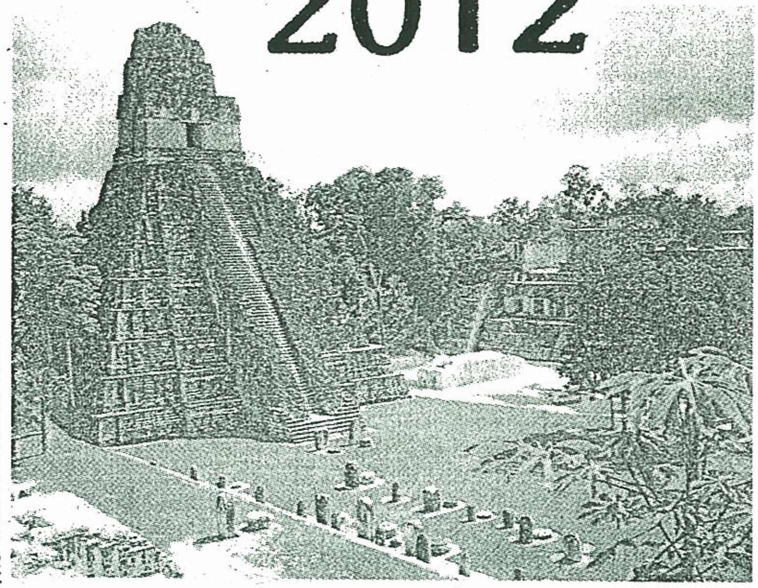
Just to show that the world functions in a entirely different manner than described by the academics, we must look at the historical data with an open mind. Once you begin that journey, you will see a whole new world of fascination and true wonder. It is a design of complex major trends that feed on each other. What **Smith** saw how the economy works with each individual moving in his own self-interest creating the **Invisible Hand**, is in fact the way the entire world if not the universe operates. Everything is moving in a complex dance of interrelationships. This is the **Invisible Hand** on a much grander scale.

I have been asked about **2012.** This will be an interest target and it is the next flipping of the magnetic poles on the Sun. It may even be the peak in global warming. These are indeed events that are also part of the **Invisible Hand** governing everything. I will address these issues in an upcoming report. But for now, let us turn to the stock markets.

Supernatural sideroads

Troubled times

2012



The Great Plaza at Tikal

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

The Mayan End of the World

December 21st, 2012

Comments Welcome: ArmstrongEconomics@GMail.COM (Internationally)

I have received many letters asking about the validity of this Mayan 2012. It seems to have been built-up into another **YK2** event. For whatever reason, there are the doomsday forecasters in this field just as there are among financial analysts who always see depression in every decline. There is a lot of truth to the Mayan forecast, such as this may be the peak in global warming. It is curious that 2012 will also be the next target for the reversal of the pole on the sun whereas the last flip on earth was 780,000 years ago. I will explore in more detail the Mayan cycles, for their calendar is far more complex than the one we use today based only upon one cycle - the sun. I will show also that the ancients thought in numbers substantially different from modern man. Some scientists have contributed data to me here regarding pole shifts back 160 million years in a real effort to try to come-up with some empirical test for the validity of this cycle of change that the Maya appear to calculate to approximately 5,126 years or so in conjunction with the Precession of the Equinox that has a cyclical duration of 25,800 years. So for those who would like to know if you should take you vacation for 2013 early, please send an email to below address and it will be sent as soon as it is completed.

ArmstrongEconomics@GMail.COM

Dow Jones Industrials

Market Outlook

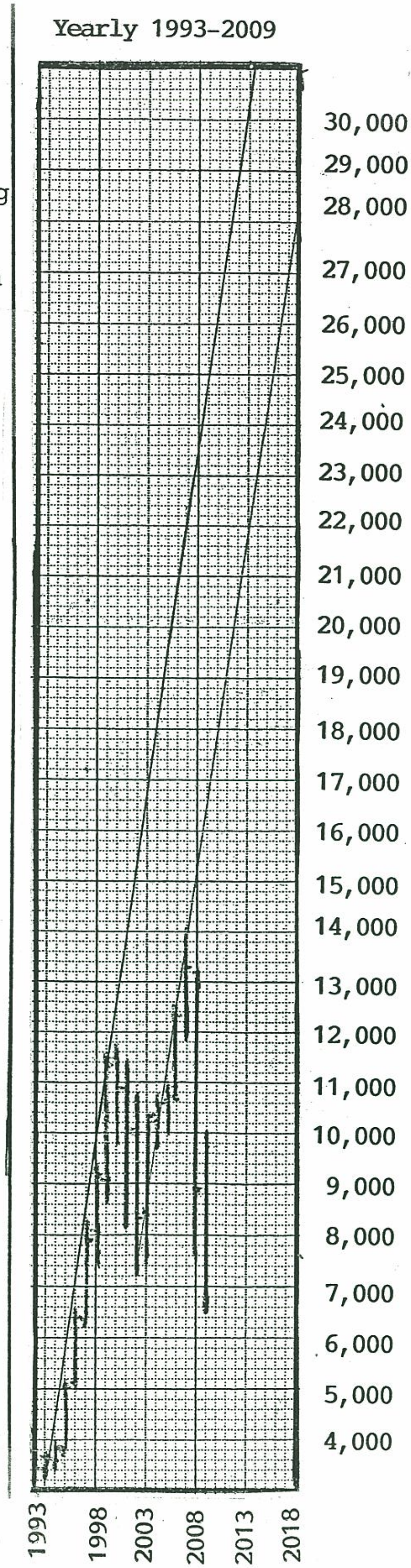
The fact that the Dow Jones Industrial Index bottomed precisely on the 17.2 (2x8.6) frequency, lends a lot of support to the key point that the low on this correction may be in place. While it would have been quite a dramatic blow out had we fallen to 4,000 in June and swing into new highs for 2012 taking volatility to a new meaning, that was not in the cards. The dramatic lowering of interest rates did not save the Dow. That did not even work in the 1930s. Back then, there was a gold standard **and** we had a balanced budget making the dollar a safe harbor. There was no carry trade taking dollars elsewhere. To forecast the future, one **must** understand the past. You cannot always warn depression is coming by looking just domestically or at incomplete theories.

Because the US is the largest debtor, we have a real different type of crisis that is more akin to the decline of Rome, that was back then the core economy as well. We must comprehend this is a significant major distinction for capital will not flee to the dollar driving it to new highs creating a similar wave of deflation as in the 1930s. The only event that would cause capital to flee to the USA, requires war on a major scale like Russia invading Europe. Absent that sort of chaos, the debt crisis will in fact dominate the outcome of the dollar and how we see a sectorial shift in **capital concentration** that will benefit stocks.

As we look ahead into year-end, there will be a critical number for the closing of 2009 standing at 10,800 and we still see the 11,000 as critical monthly closing resistance. If we close above 10,800 for year-end 2009, this will be a very positive signal suggesting that we may yet see a strong move to perhaps new highs sooner than later.

The broad level of resistance in 2010 will stand at 12,500 with the broad level of underlying support should be found at 8,800. This will define the primary trading range for 2010 that reflects still a neutral position for the Industrials just now.

Long-term, there is little doubt that we should expect to see record highs in years ahead. 2007 will **NOT** be a major high and there can be no 90% decline when there is no balanced budget.

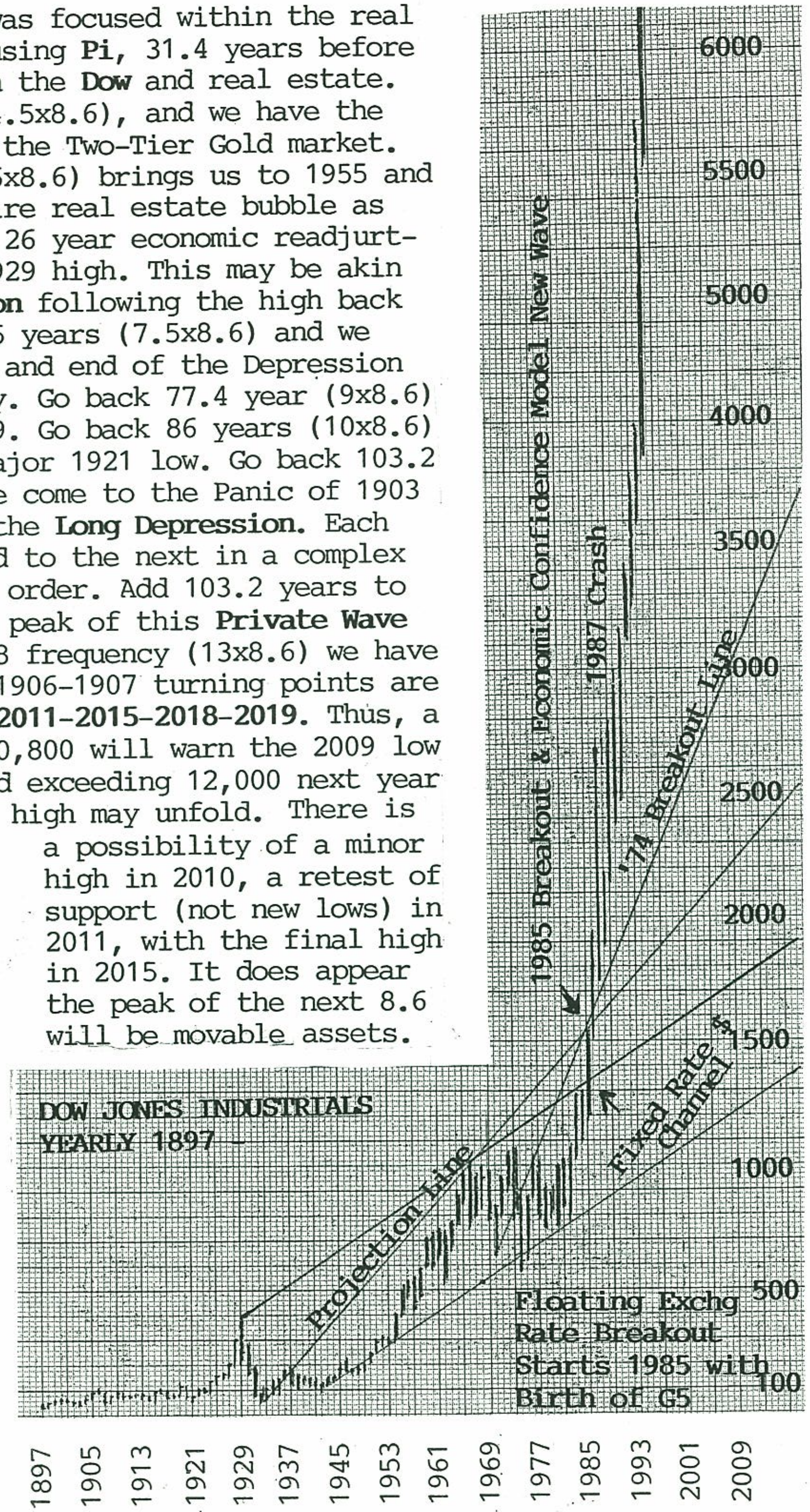


In order to get far away from just personal opinions that will always introduce **subjective** forecasting highly prone to error, we must embark upon understanding the highly complex inter-relationship that every market or index has with everything else around it both domestically and internationally. In the last report, I attempted to show the complex inter-structure of how the **Dow Jones Industrials** in fact are moving on an annual basis that is always linked to the past to produce **turning points.** Each event is like a separate stone cast into a still pond. They still ripple through **TIME** and **SPACE** to such an extent, that the future unfolds is a truly dynamic manner.

The 2007 high was focused within the real estate sector. Even using **Pi**, 31.4 years before we come to thepeak in the **Dow** and real estate. Go back 38.7 years (4.5x8.6), and we have the 1968 high & birth of the Two-Tier Gold market. Go back 51.6 years (6x8.6) brings us to 1955 and the birth of the entire real estate bubble as well as the end of a 26 year economic readjurtment following the 1929 high. This may be akin to the **Long Depression** following the high back in 1878. Go back 64.5 years (7.5x8.6) and we come to the 1942 low and end of the Depression from 1929 empirically. Go back 77.4 year (9x8.6) and we arrive at 1929. Go back 86 years (10x8.6) and we come to the major 1921 low. Go back 103.2 years (12x8.6) and we come to the Panic of 1903 that was the end of the **Long Depression.** Each event is truly linked to the next in a complex structure of perfect order. Add 103.2 years to 1929 and we come the peak of this **Private Wave 2032.** Using the 111.8 frequency (13x8.6) we have 1895-1897-1899-1903-1906-1907 turning points are linked to **2007-2009-2011-2015-2018-2019.** Thus, a 2009 closing above 10,800 will warn the 2009 low is likely to hold and exceeding 12,000 next year would suggest a 2011 high may unfold. There is a possibility of a minor high in 2010, a retest of support (not new lows) in 2011, with the final high in 2015. It does appear the peak of the next 8.6 will be movable assets.

DOW JONES INDUSTRIALS

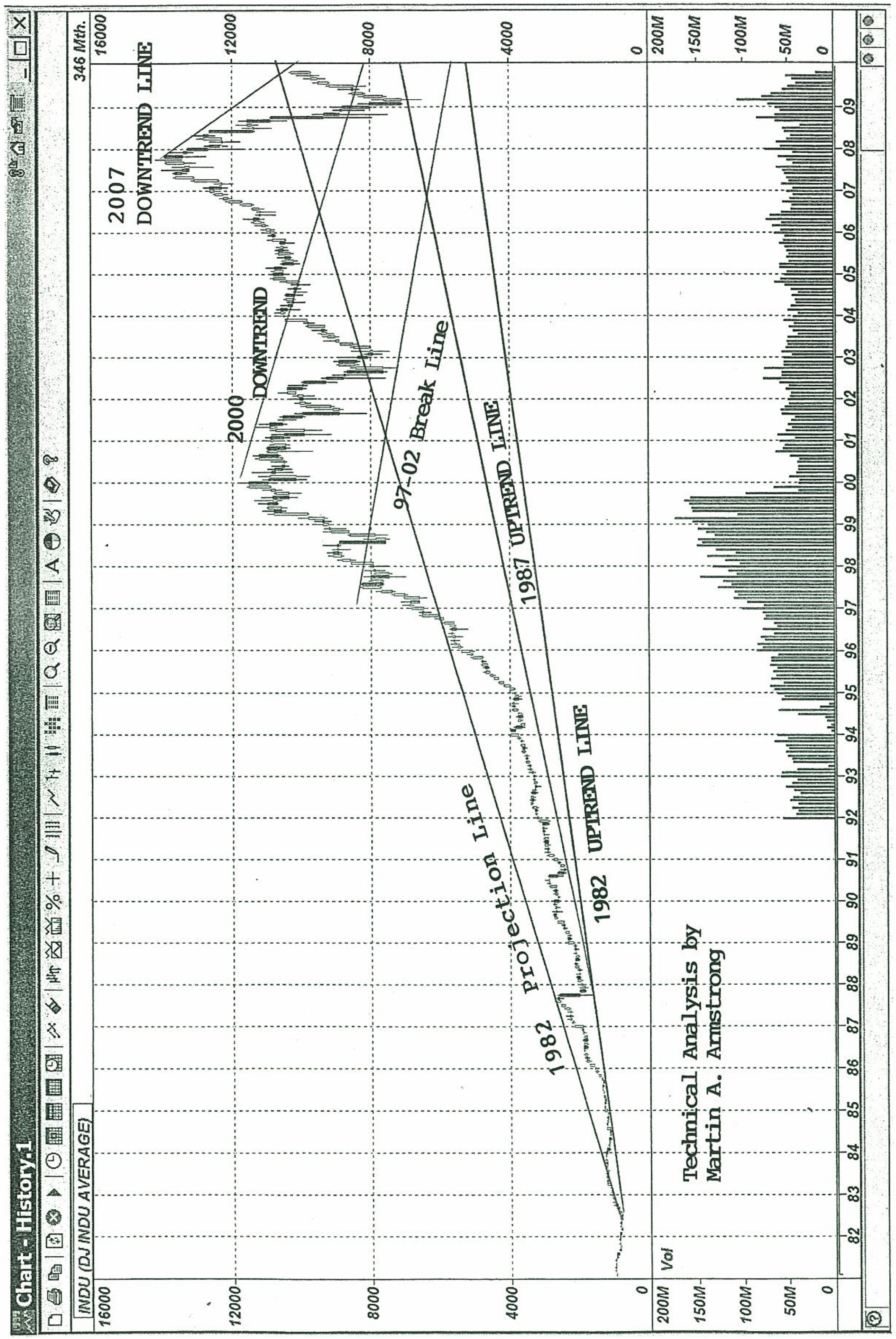
2010	2011	2012
26200	27800	29200
		20600
	19000	
18200		
14200		14200
	13300	
12000	12700	11950
		11497
10941	10700	10800
10013		
	9374	9120
8259		
	7539	
	7449	
6390		6390



Market Outlook

DOW JONES INDUSTRIALS

Market Outlook



What I have illustrated with the yearly chart back to 1897, is a demonstration of how the transition from a **Fixed Exchange Rate** for the world currencies to a **Floating Rate** that began in 1971 was just more than 13 years to the birth of the G-5 where government got then together to manipulate the world currencies thinking if they lowered the dollar by 40%, they would reduce the trade deficit and create more domestic jobs in the United States. That **Brain-Dead** idea, as you can see, created a complete departure from the historical norms.

It was the birth of the G-5 that prompted me to write to then President Ronald Reagan pleading not to create the G-5 with such a mission. I warned that volatility would explode. Beryil Sprinkle who was the Chief Economic Advisor in the White House at that time, wrote me a very nice multiple page letter explaining that Princeton Economics was the **only** firm with such a volatility model and until someone else created such a model, then they could not rely upon just one model. Of course, when the 1987 Crash hit, suddenly I was hounded to provide the research since now amazingly, everyone understood that volatility was the biggest problem. Even a friend of mine Jack Swager called me and asked me to help on behalf of the industry. A client **Paul Tudor Jones** was handing out copies of the **Greatest Bull Market in History** back then by the hundreds and his partner **Peter Borsch** assumed a position on the Brady Commission.

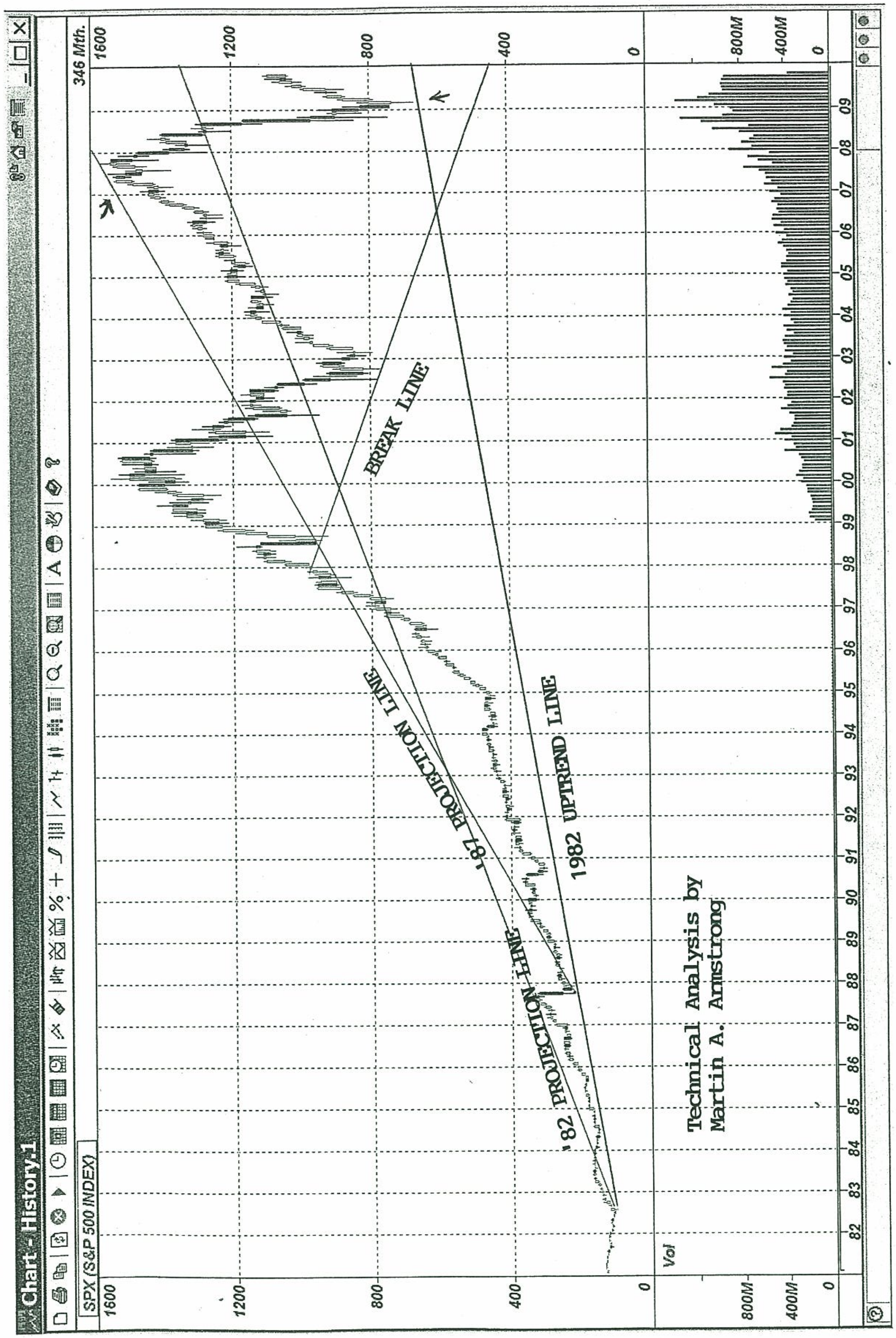
What I have illustrated is the technical picture of how that **Breakout** had appeared to me back then. We exploded through the old **Fixed Rate Channel** from the **Great Depression** and we were headed to a completely new plane of price movement. The top of that old channel was about 1,000 and thus the top of the next plane should be about 17,200 with the low being 17.2 x the first high creating that channel of 1929 at 386 = 6639. These are rough approximations, not tradable concrete figures any more than Fibonachi really dictates percentage retracements or the **Golden Mean .618.** For example, the 2000 high was 11,722 and if we take 25.8% added to the high should provide the next ideal plane 17,861. For example, 11,722 x 17.2% added to the high will give us 14,746 when the high in 2007 was 14,198. These are only **general** indications, not definitive projections.

We can see from the monthly chart on page 12, the primary core resistance short-term remains at the 1982 Projection Line and the 2007 Downtrend Line. When the **Dow** gets back above these key technical lines and falls back encountering support, we should expect the rally to then test the 2007 high. If we fail to exceed the 2007 high in 2010, then we may see the consolidation complete by mid 2011 and then start a new rise into the peak of the next 8.6 year **Economic Confidence Model** target.

The year 2011 is interestingly 154.8 years from the **Panic of 1857,** (3 x 51.6). The next target in late 2014 is 51.6 years from the 1962 low of June 25th. Everything is correlated and interlinked not just in this manner within the same market, but globally. By inputting absolutely everything that moved, the world unfolded in slow motion. It was **not** my personal opinion. It was a glimpse into the eyes of posterity.

Turning Points are mathematically determined. There is no possible way for anyone to be consistently right based upon personal opinion. It is what it is. Clinging to old theories and myths will never produce knowledge and progress. We must let the interrelationships reveal the hidden order that lurks behind everything.

Market Outlook



S&P 500

THE BROAD SHARE MARKET OF THE UNITED STATES

The **S&P 500 Index** did make a new high on October 11th, 2007, just slightly above that established back in the 2000 rally. Still, this type of high is by far **not** a major high as it was back in 1966 when the Dow first hit 1,000. The more a market retests the same level, the greater the probability it will exceed that high.

Major highs are more like that in the **Nikkei 225** and the bubble top of 2000 in the **Dot.Com** era that established the spike high in the **NASDAQ.** This is why this type of pattern does **not** lead to a great depression style collapse. At least in 1929, there was the spike bubble top akin to the 2000 high in the **NASDAQ.**

What we are looking at here is a key temporary high and that is it. The broad market is screaming that the future will bring new highs and we will more-likely-than-not explode in an inflationary bubble just as stocks rose from 1932 into 1937 on expectations that the dollar would be devalued.

Those who constantly yell "depression" with every fall in the stock market don't have a clue what they are truly saying. There is always that guy roaming the streets with the sign "repent" for the end is near. Sorry - it just is not lined up like that this time once again.

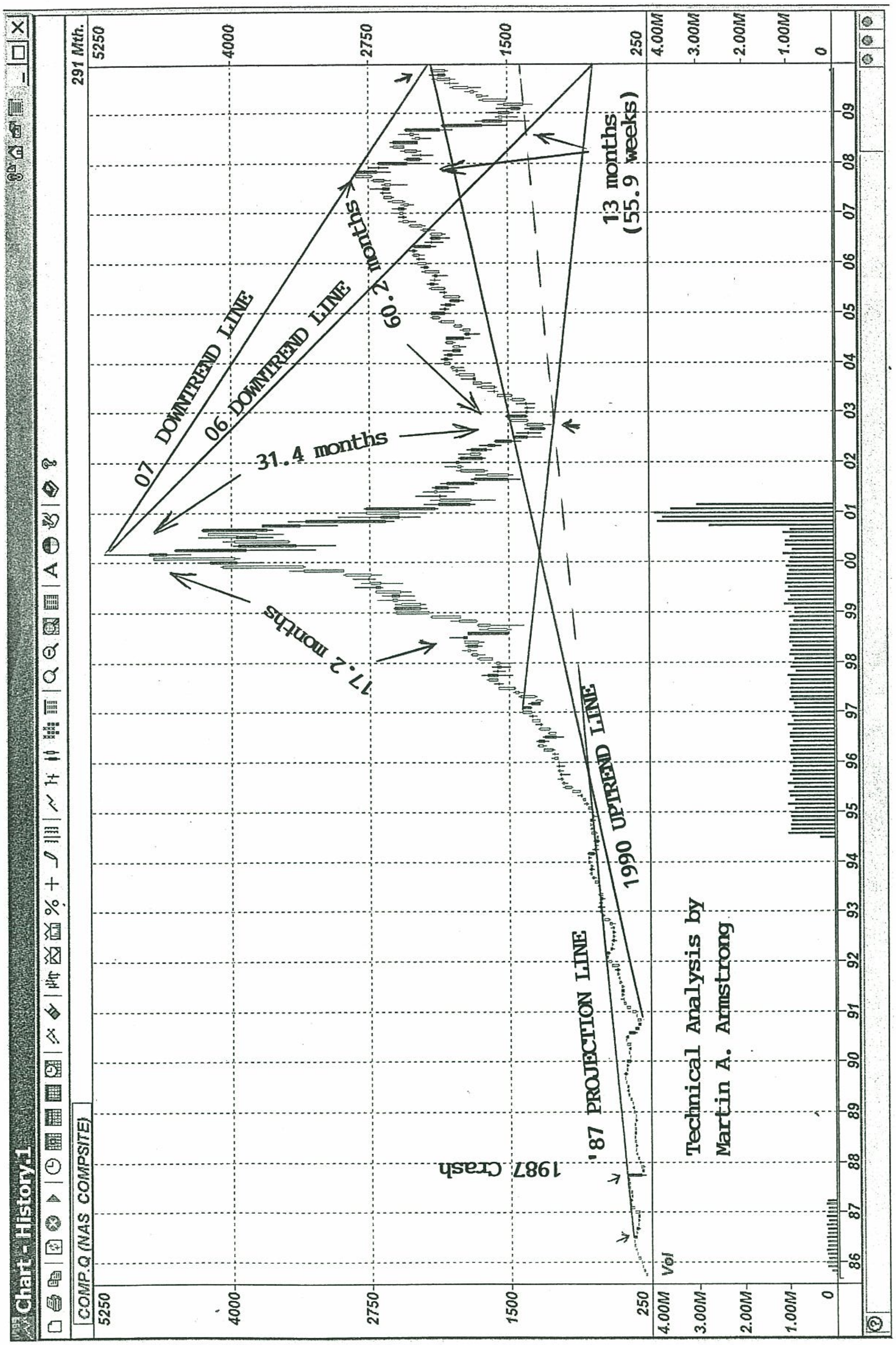
The interesting swing in the **S&P 500** was that the 2007 high exceeded the 2000 high and the collapse into March 2009 on the **17.2 month** declinealso penetrated the 2002 low. This was a perfect pendulum swing building energy for the future.

The primary long-term support lies at 740 on an annual closing basis. Only a year end closing beneath this area would signal that a sharp decline in likely. We have pentrated this support level on the annual level of models, there has been no annual closing below that key support since 2000.

The major resistance begins at 1220. There is also a pivot point at 1140. We are bucking against this area for year-end. We need to get through this to start to create broader support. The buy signal would be a annual closing above 1410 and 1220.

Therefore, the critical trading zone will stand at the 1220 and 740 levels. We should watch 1140 as a critical indicator for the year 2010 and 1220 will remain as critical well into 2011. The 740 level will be the critical support throughout 2010 and this will rise slightly to about 920 for 2011.

Market Outlook



NASDAQ

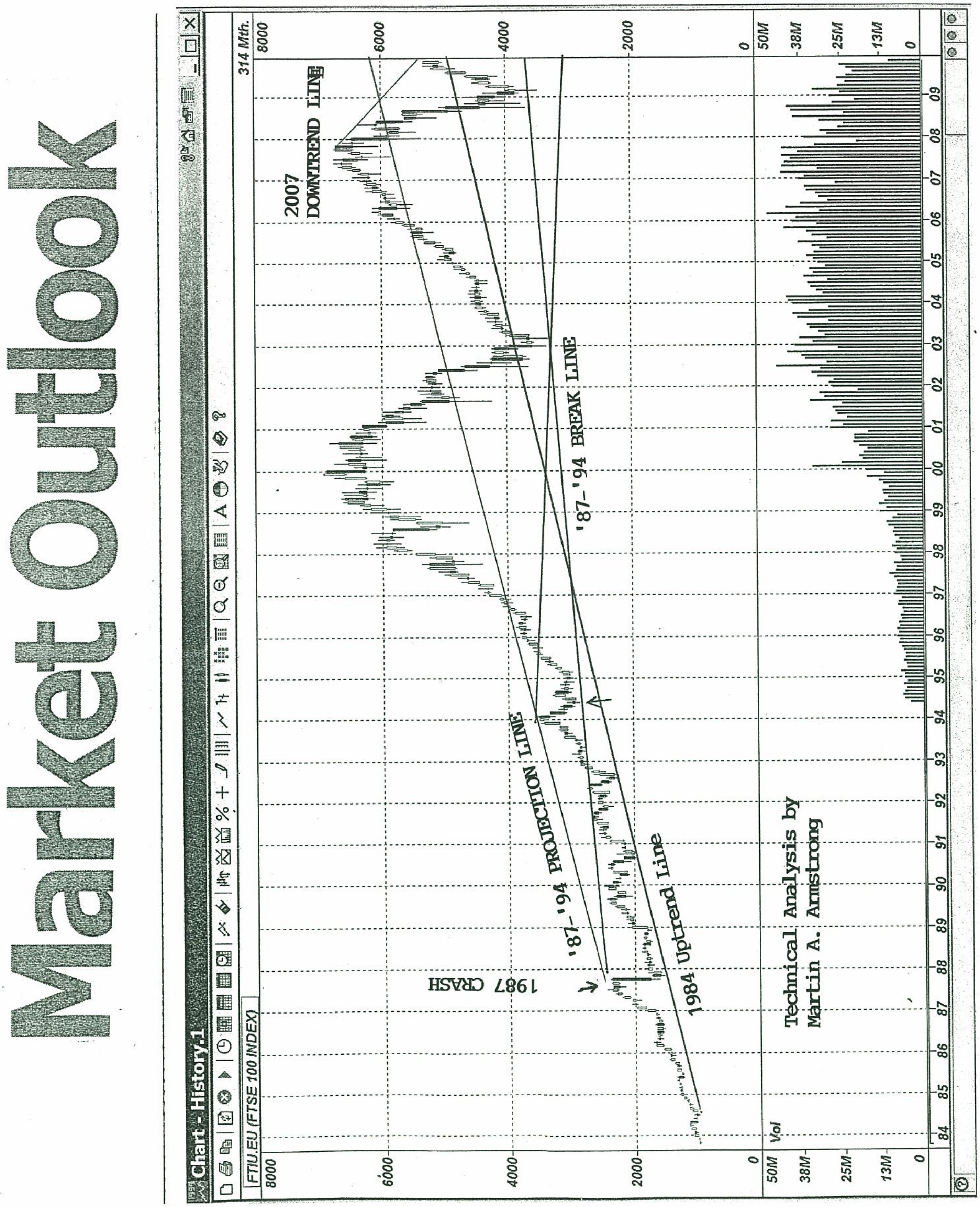
The **NASDAQ 100** is a great illustration about how markets reach true bubble tops that the Dooms-Day crowd keep lamenting about with every time the stock market declines. Real bubble tops are isolated spikes and the old maxim remains **"Real tops, only give you one chance to sell!"** I have never see a major high form with a double or triple top. There may be a correction from each, but it will give way. The Dow did that with the 1,000 level, It kept knocking on the door, and then even at times crashed and burned as it did in the mid-70s. This was a confusing transition period for everyone when the instrument in which you measure what you are charting, suddenly becomes an elastic variable itself. You are now trying to measure a room for a carpet with a ruler printed on a rubber-band. The scary part is Government still has not figured this problem out.

We can see that from the last thrust to the downside in 1998 that penetrated the previous correction low of late 1997 just as we have now seen in the **S&P 500**, this is of what I speak when I refer to this type of pattern as being a **Pendulum Move.** The market will swing to the downside getting everyone bearish and because it penetrates the last major reaction low, the analysts come out with the signs **"Repent. The End is Near."** That sets the stage for a reversal of fortunes and by swinging to new lows, you now have the energy to swing to new highs. There more often than not this **Pendulum Move** just before a major thrust to a bubble top or a new trading plane caused by the underlying currency devaluation. From the 1973 high in the Dow, the sharp crash into the low for December 6th, 1974 penetrated the previous low of May 26th, 1970 (see last report). That was the first **Pendulum Move** showing there was a build-up in energy that eventually let to the explosion in 1985 when the **Public Wave** turned to a new **Private Wave.** The **1987 Crash** was what I call a **Mid-Stream** version of a **Pendulum Move,** insofar as it does not penetrate the previous low, but its force is so swift, it scares the hell out of everyone and accomplishes the same effect, a setup to new highs.

Here in the **NASDAQ** we can see it was a clear 17.2 months to the bubble top in 2000 following that **Pendulum Move. The** decline was also a perfect **Pi Cycle** of 31.4 months. Keep in mind, the longest thrust to the downside was the Great Depression 34.4 months. The first thrust downward was the **NIKKEI** was also 31.4 months. The recovery into the high for 2007 was 60.2 months (7x8.6) perfectly in line with the 8.6 year frequency as well as the **Economic Confidence Model** that pointed to the major high in real estate for February 26th, 2007. The immediate thrust to the downside was 13 months or 55.9 weeks (6.5x8.6).

We need a year-end closing above 1745 to suggest that a rally may now unfold. Resistance for 2010 will stand at 1750, 2000, and 2250. We also have a pivot point at 1450. This is critical for year-end closing to finish **ABOVE** this number, or we may yet see a break to new lows under 1,000. The major support for 2010 will lie at 1150 and 800. The 800 level is still the **Yearly Bearish Reversal** that held back in 2002. Therefore, any thrust to the downside will be merely a setup for a **Pendulum Move** to the upside into 2015.

BRITISH FTSE 100 INDEX



British FTSE 100

When we look at the British Share Market basis the **FTSE 100**, we can see once again that there is no bubble top formation. Where the **Dow Jones Industrials** at least exceeded the 2000 high, the **FTSE 100** is a closer match to the **S&P 500** that exceeded the 2000 high, but only marginally. The **FTSE 100** appears to be more akin to a double top formation, yet the decline into 2009 did **not** penetrate the 2002-2003 low as took place on the **Dow.**

From a pure technical perspective, holding the 1987-1994 **Break-Line** on a monthly closing basis, is still showing that new highs are likely in the years ahead. This is intensely interwoven with the key value of the underlying currency.

The cyclical **Turning Points** appear to be lined up for the most part that with the United States. There is still a risk that we do not have the final low in place. In this respect, it is different from the **Dow.**

We need a weekly closing above 5500 to firm up the low. The key timing is different. Here the 2007 high was made on July 13th, not in October '07 as did the **Dow.** The March low in 2009 is 20 months from the high, not 17.2. We have two possible targets Feb-Mar 2010 and Apr-May 2010. It is interesting that we have a July '07 high in not merely the **FTSE,** but also the **S&P Midcap 400** and the **DAX.** Most other indexes peaking in October 2007, with the exception of the Japanese **Nikkei 225** that peaked precisely with the **Economic Confidence Model** on February 26th, 2007. Therefore, we may yet see still critical price movements although the March 2009 high was 17.2 months from the Oct '07 high, it was 25.8 months from the February '07 high.

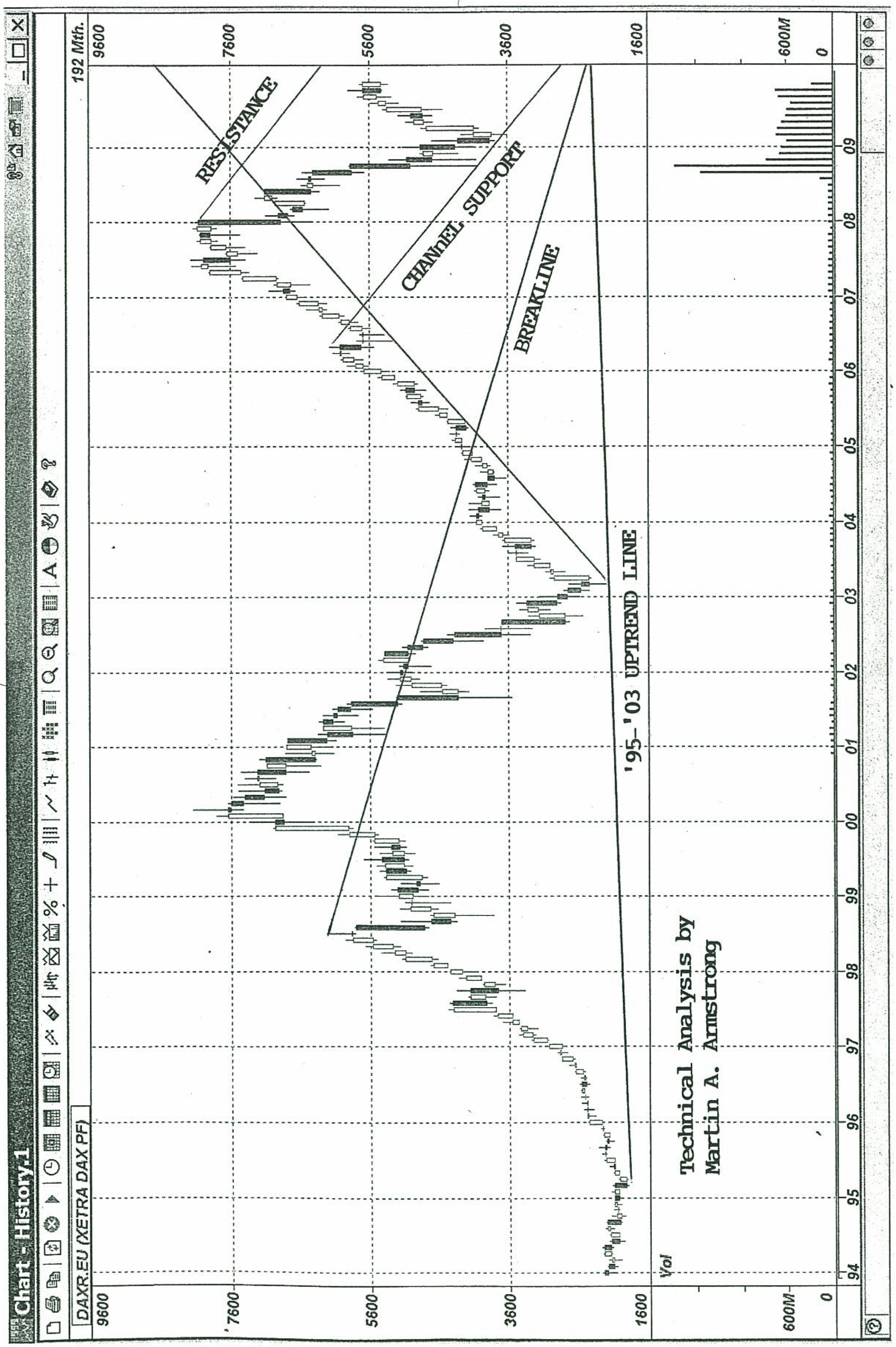
FTSE 100

2010	2011	2012
6750	6750	6750
6510	**(6510)**	**6510**
6270	**6270**	**6270**
6030	**6030**	**6030**
5820	5820	5820
5660	**5660**	**5660**
5600		
4760		
	3680	
		3460

The primary overhead resistance will remain at 6030 on a monthly closing basis. Until we see a monthly closing back above this area, then there will remain the risk of penetrating the 2003 low marginally. A monthly closing back below the 4200 level will signal that new lows are likely. The high took place in 1999 and the low in early 2003 compared to 2000 and 2002 for the Dow. This again warns that the **TIMING** is slightly different insofar as where the intraday high and low could form, although the general main direction will still be in line with the US market.

The table to the left will provide a brief insight into the major resistance and the support areas. The resistance seems to be fairly steady, whereas the support continues to decline going into about 2012.

GERMAN DAX INDEX



GERMAN DAX

The German **DAX** is very similar to that of the British **FTSE** insofar as there is a double top formation. This reflects the key likelihood that new highs await us most likely going into the 2015 target area. Nevertheless, look closely at the 2007 rally. You will immediately notice that there is no spike high. Even back in 2000, there was an isolated single spike for a high that was a perfect **17.2 Months** from the low. Those who persist in trying to claim that cycle do not exit, please explain the persistent occurrence of this frequency popping up around the world time and again. In fact, the major thrust to the downside into the first low in 2001, was again 17.2 months from the high. From the low in 2003, it was 51.6 months to reach the intraday high in 2007 that formed on July 13th, 2007 at 8151.6.

Here we need a monthly closing back above the 6000 level in order to suggest that the March low of 2009 would hold. The primary **Turning Point** seems to be shaping up for the April/May time period in 2010. Keep in mind that mid April 2010 will also be the **Pi** date from the major high in the **Economic Confidence Model.**

The **DAX** clearly made its high on July 13th, 2007, not on February 26th, 2007 with the **Economic Confidence Model** nor with the **Dow Jones Industrials** on October 11th, 2007. This places its timing more closely linked to that of the **FTSE.**

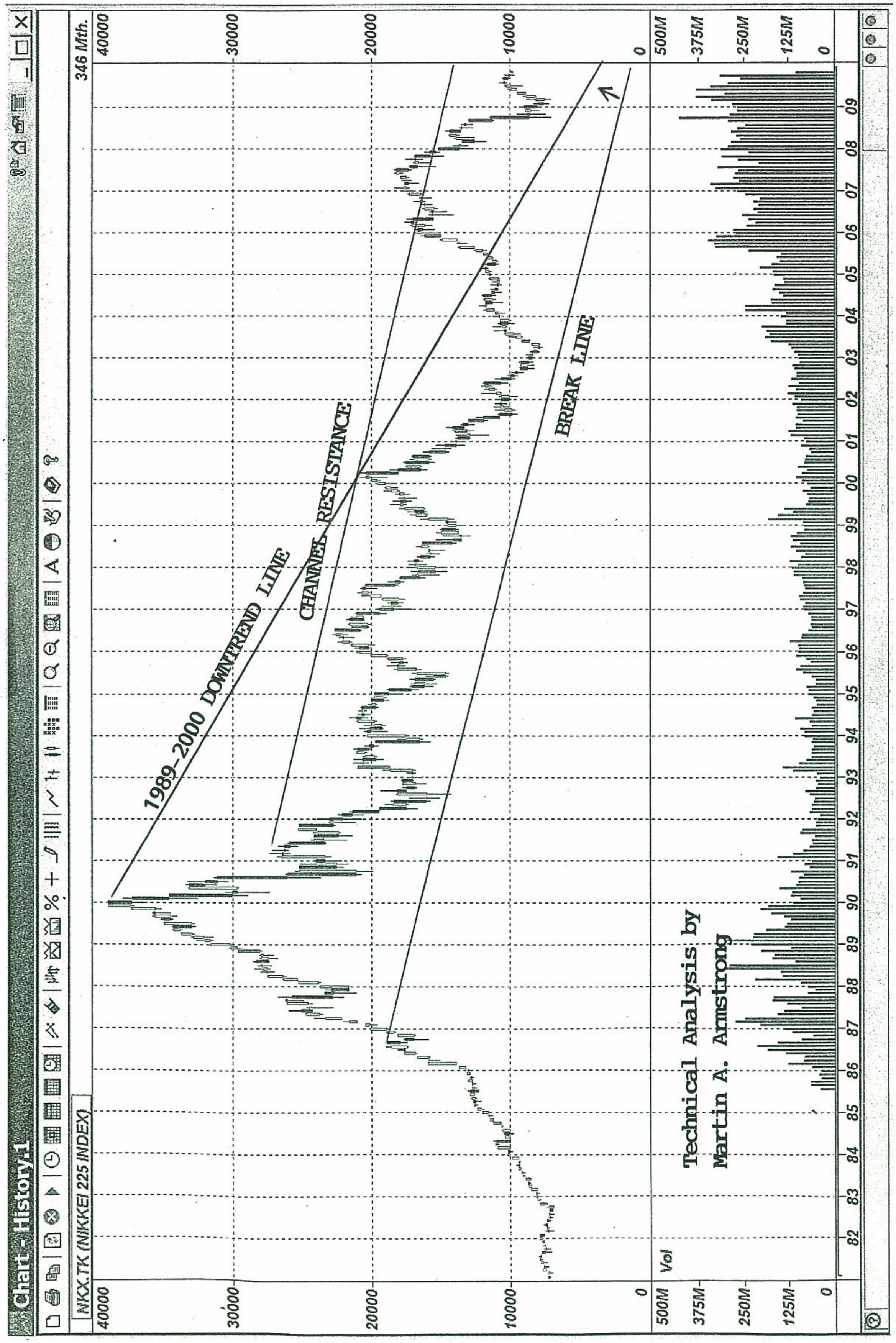
The key level for 2010 will stand at the 6400-6500 area. As long as the **DAX** remains below this area, then new lows will remain still possible for the 2010-2011 target.We need a annual closing above 6600 to suggest that the low is in place. The 2007 rally ran right up to the key overhead annual resistance at 8100 and failed to close above it although it reached 8151.6 intraday. A weekly closing above the 6400 level is also required on a short-term basis to firm-up support.

A monthly closing below 3700 would signal a drop to Channel level Support. Nevertheless, it does not appear that the 2003 low would in any event break. A new low under that of 2009 is possible, but it is not likely to lead to a complete collapse. That may prove to be a buying opportinity. The major long-term support is forming at the main 2000-2200 level.

The chart of monthly data provides a good look at the technical undertone of the market We have the **Channel Support, Breakline** from the 2000 high, and the 1995-2003 **Uptrend Line.** These purely technical projection show that there is support forming **ABOVE** the 2003 low that does not appear to be vulnerable to a break.

What we are looking at is a possible pendulum move whereby any thrust to the dowside would be met by building energy to swing back to the upside with considerable force. Keep in mind that Germany is not following the inflationary model per se and is taking steps to produce the precise opposite effect, which could cause an initial swing down if we do not get at least a monthly closing back above 6400.

Market Outlook



Japanese NIKKEI 225

Market Outlook

The **Japanese Nikkei 225** has been in a death spiral since 1989.95 and this market still loks like it will make new record lows going into 2011.45 that will be a **21.5 Year Decline (2.5 x 8.6).** We could see the final low be pushed off into as late as a **26 Year Depression Low** that would line up with 2015.95. However, that is more likely to be the final economic low, while the **Nikkei 225** is more likely than not due for a final low in 2011.45.

The **LDP** lost as the trend have show for years. However, culture is next to impossible to break or reverse. Once an institute acts in a certain way, change parties does next to nothing. The Democrats had complained about Bush's widespread use of "signing statements" that are in fact undemocratic and effectively refuse to enforce laws that are enacted by the people. **Article II, §3** stated the President **will** enforce the laws "faithfully" with no discretion to create "signing statements" that are a hybrid veto. With all the clamoring that such actions were wholly unconstitutional, as soon as Obama took office, he quickly adopted the same practice. This is what I means about the culture. The LDP dictated to the economy and destoryed it. It is very unlikely that we will see structural change in Japan and thus there seems to be no reversal in trend in the near future.

The **Nikkei 225** has to close back above 12400 on a weekly basis just to suggest that a possible low is in place. This does not seem to be possible and new lows are still likely. The fact that the **Nikkei 225** peaked **precisely** with the **Economic Confidence Model** on February 26th, 2007, was the kiss of death for Japan. The persistent market manipulation by the government is not likely to end and this stubborn decline is just not over yet.

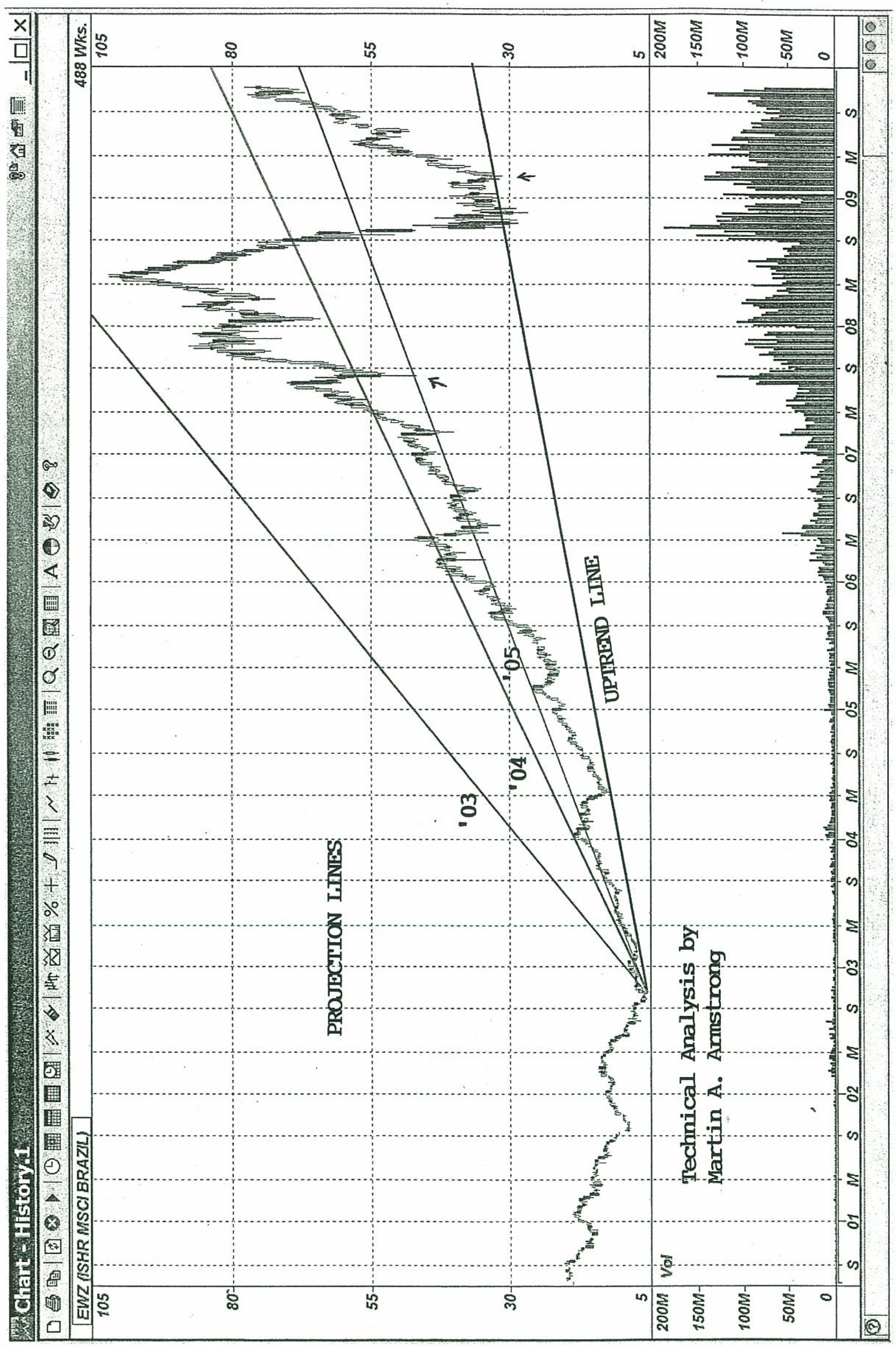
There appears to be critical support on a weekly closing basis at the 8,000 level. When this gives way, we are likely to see the fall move dramatically lower still.

The 12,000 level was a **Yearly Bearish Reversal** from the 1989.95 high. Old client will know what that means. In other words, once we closed below that level on an annual basis, the fall was inevitable over a prolonged period of time.

Unfortunately, a yearly closing now below 10,000 will keep the short-term pressure on. A yearly closing below 8,000, will cause a dramatic drop to test perhaps even the 4,000 level. The key support will be found technically at the 1989-2000 Downtrend Line and at the 1989.95 Break Line.

I am not in a position currently to provide the precise target on a price basis for the low. I need access to the computer for that forecast that clients are perhaps expecting. I apologize for being in this position when so much is now riding on the outcome of this critical economy.

Market Outlook



BRAZIL

The Brazilian market has been the talk of the town for some time. We can see by the chart provided, the volatility is most certainly self-evident. The plunge from the 2008 high has been met by a sharp recovery rally.

The **Brazil** market rallied from a low in 2002 into a high for 2008, not for 2007. Nevertheless, the sharp decline met with a low in conjunction with most world markets, however, March 2009 was only a retest of support.

The year-end support lies at the 44 level. This is the critical are of support and this needs to hold to allow this market to calm down. The volatility allowed a swing below the 2006 low followed by a swing back through the 2005 **Projection Line** and nearly reaching the 2004 **Projection Line.**

There is long-term support forming on a monthly and annual closing basis at 40. This is absolutely critical to hold in the near future on an annual closing basis. Failure to accomplish that would signal the end of the bull market.

Ideally, we should see the final high here in this market in line with the next peak of the **Economic Confidence Model** that is scheduled for a major high in 2015.This would bring us to 1.5 x 8.6 that amounts to about 13 years.

We need to see **Brazil** stay far away from debt as possible. If it truly does that from a national perspective, there is a major possibility that it could emerge as a new important economy in the years ahead. There is significant potential if everyone played their cards right that the USA and Europe could lose the focus of global capital due to the rising debt.

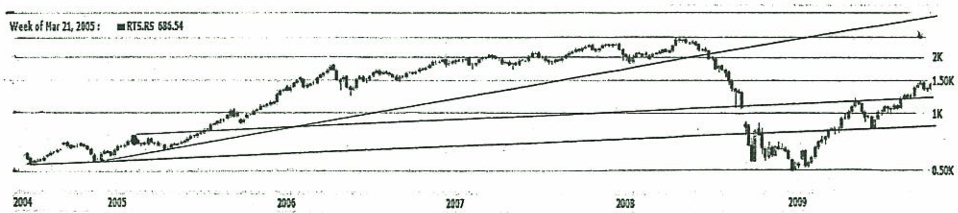
Volatility will still run quite high in **Brazil** as many try to figure out what is going on for the future. Will **Brazil** emerge as a new world class economy? Or is **Brazil** going to falter as most Latin American nations have done in the past.

The **2005 Projection Line** is critical. If the low is in place, then this line **must** begin to provide support. We have to have this this area provide support to prevent a retest of the lows.

The **2004 Projection Line** will continue to provide resistance. When this line is exceeded and it provides support, then we should expect a rally to new highs that eill go off this chart and move to test the extreme overhead resistance that is provided by the **2003 Projection Line.** This is the critical resistance that should make the target for the major high in the years ahead perhaps going into 2015.

RUSSIA

RTSI INDEX (RTS.RS)



Since the great revolution that began in 1989, **Russia** has been far from a free market and the government has not truly let go. Putin still dominates the politics and he is very much still in line for keeping an iron grip and old world ideas of Empire. In **Russia**, many still portray the fall of the economy as a CIA plot. As always, it is easier to blame the opponent than to admit that a central controlled economy dictated by the state, cannot evolve and mature and thus will destroy potential process.

China has been able to adopt to the new free markets because it did not try to control each mind as did Stalin. **Russia** was worried about individual thought. China just worried about someone sticking there head up higher than everyone else. China did not summarily execute protestors as did Iran, and nobody even bothered to protest that one.

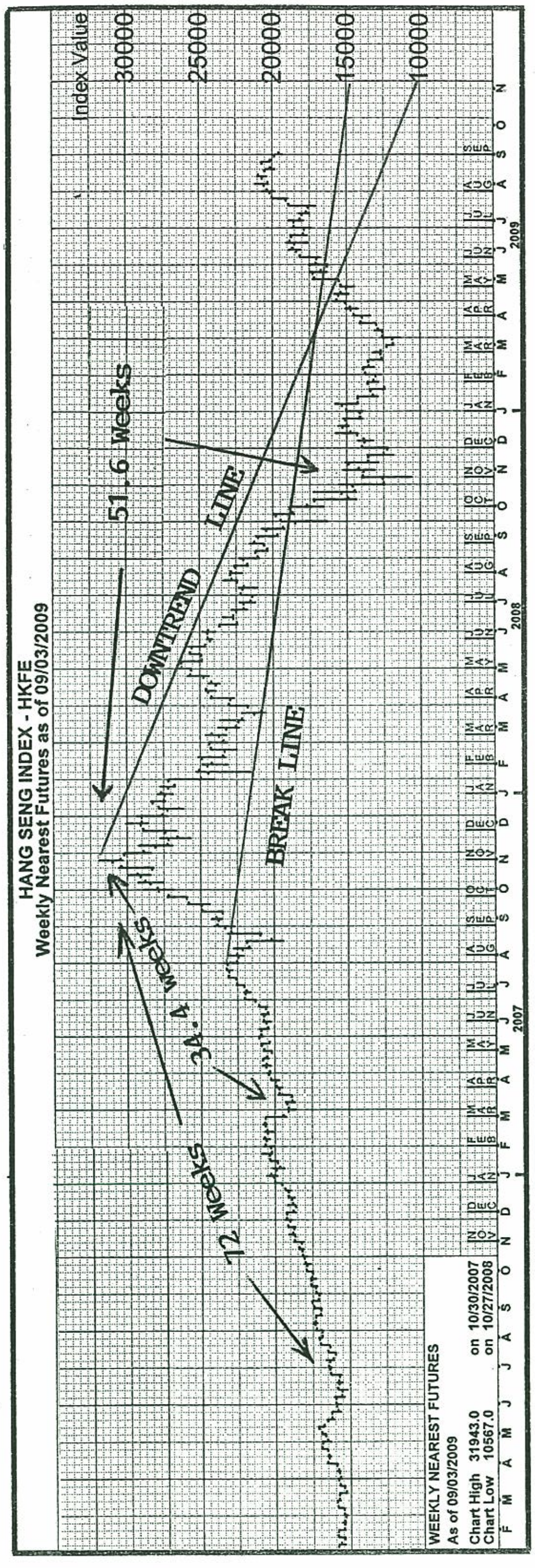
Nevertheless, looking at the chart pattern for **Russian RTSI Index**, we see a high in 2008, not 2007, and this is not even a spike high that one would expect to see in a bubble top. This pattern hints that the major high is **<u>not</u>** in place and we should expect to see continued highs most likely into 2015 on the back of oil and commodities.

In the next few weeks, I will provide a look at oil for the coming year. We will see that that is greatly tied to the overall performance of **Russia** as well.

While there was a steep decline, there is also a very high probability that the **Russian** share market will be a truly outstanding performer on the next 8.6 year cycle. This will **<u>not</u>** be due to the progress of the **Russian** economy as a political state. Instead, it will be on the back of a strong commodity bull cycle both in metals and in energy.

We may see the **RTSI** breakout to new highs that could very well reach twice that of the 2008 high going into 2015. This index appears to be quite strong long-term, although highly prone to great swings in volatility.

HONG KONG



The Hang Seng Index peaked on October 20th, 2007, closely in line with the **Dow Jones Industrials.** It did not peak with Japan precisely with the **Economic Confidence Model** and thus it does not appear to be set up to share its immediate fate.

The **Hang Seng** also made a key **51.6 Week** decline into it low made on October 27th, 2008. It did **not** follow the US market into a major low in March 2009. What we have is nearly a 12 month decline that is just shy of the 52 week interval yearly.

Even when we look at the major high in 2007, here too we can see how it lined up nicely with two 8.6 derivative frequencies being 34.4 weeks combined with the **Volatility Cycle** frequency of 72. These two frequencies will blend together at get turning points.

A monthly closing back above 25,000 will signal that the low is in place and we may yet see new highs on the horizon.

The primary support lies at 13000 on a weekly closing basis. This is the critical support. As long as this holds, then the 2008 low would hold. Break this key vital support and we would most likely just penetrate 10,000, and then turn around and swing to new highs.

It still appears that China overall is going to be the attraction for capital. The **Debt Crisis** in the USA and Europe, will explode and this will lead to inflation and we may yet still see a shift in the capital flows that will result in a major currency crisis. The years ahead are going to be filled with chaos and turmoil.