



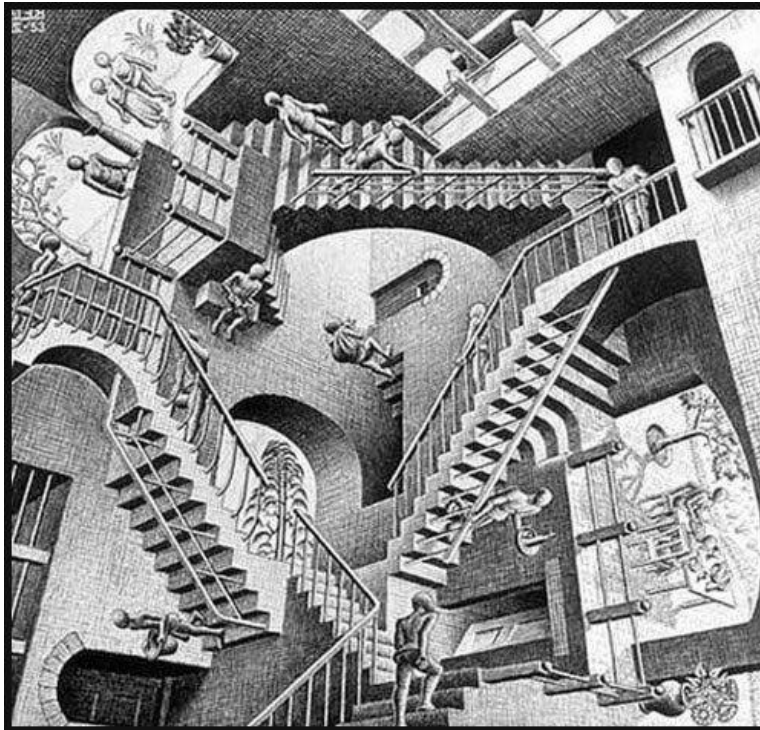
Financial-Capital-Equity-Commodity & Political Trends
History Is a Catalogue of Solutions

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The Immediate Outlook

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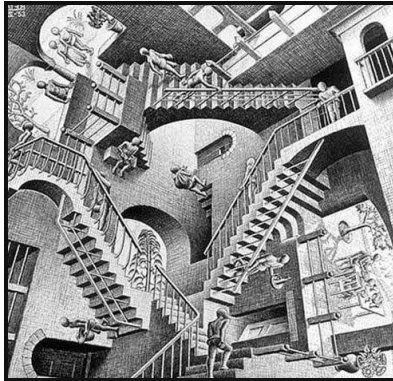
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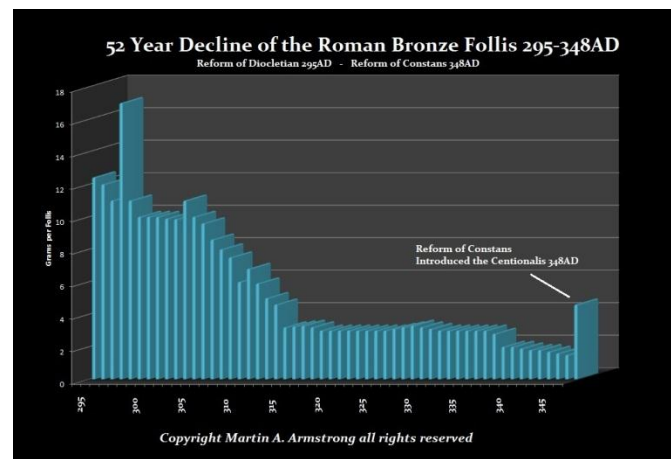
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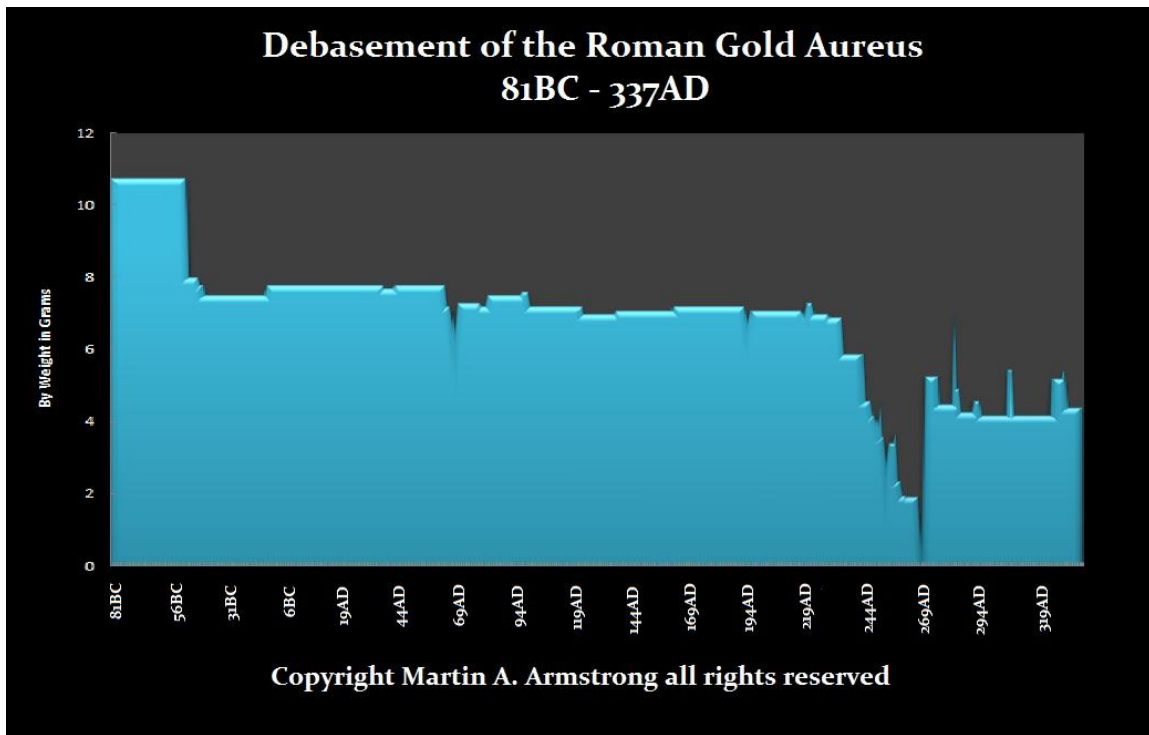
By: Martin A. Armstrong
former Chairman of Princeton Economics International, Ltd.

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Things out there in the real world are getting pretty bad. The illusion of Marxism that handed the power to government to intervene and manipulate the people to control the economy is crumbling before our eyes falling to nothing but dust. This turn for the worst is being caused by a collapse in **CONFIDENCE** in government. The polls show we are approaching two-thirds of Americans don't even trust government any more. This feeling is rising mutually on a global scale. While it is true that the **Austrian School of Economics** at least recognizes that there is a **Business Cycle** and "**mainstream**" economics calls trying to measure the **Business Cycle** numerology because they are closet Marxists who believe the economy can be manipulated, my work is squarely between these two schools with the former at least acknowledging there is a **Business Cycle** and the other stuck in a state of denial clinging to their **Unattainable Illusion**.

The **Austrian School of Economics** argues that the **Business Cycle** is primarily caused by excessive creation of bank credit – or *fiduciary media* – which is encouraged by central banks when they set interest rates too low, combined with the practice of fractional reserve banking. The **BOOM** unfolds due to the expansion of the money supply in which they argue resources are **misallocated** due to falsified interest rate signals. The **BUST** unfolds as the market self-corrects resulting in liquidation of the **misallocated** assets contracting money supply. I have mapped the global economy back to inception and there always was a business cycle as this 51.6 year wave during the 3rd-4th century AD.





The **Business Cycle** CANNOT be manipulated no matter what the “*mainstream*” economists claim and the **Austrian School** has discovered a symptom that correlates to the **Business Cycle** thanks to the tinkering of those who refuse to admit that there is a **Business Cycle**. If these ideas were true, then there should be straight lines when we go back beyond the 1600s when the first quasi-central bank was formed in 1609 at Amsterdam - **Wisselbank**. The truth is not that far out of rational thought. Simply put, everything contributes to the Business Cycle that includes weather, natural disasters, migration, politics, and the very people who try to manipulate what they claim is not there. This same economists that argue measuring the **Business Cycle** is numerology, are the same people who will argue someone caused their theory to failure and they should be locked up. Instead of opening their eyes to the possibility they may be wrong, they would rather slander others as the reason for their fallibility.

So when I say this is the **COLLAPSE OF SOCIALISM**, it is really the collapse of this arrogant strain of economics that crowned government with the power to borrow perpetually, manipulate what is



**Wisselbank Amsterdam
founded 1609**

not there, and to create utopia without ever considering just perhaps the whole is not the sum of the parts, but a dynamic interconnected synergy that Adam Smith called, the **INVISIBLE HAND**. Oh ya! That implies free markets that should also not be allowed to exist according to this pro-government tyranny. This is what is collapsing. Years of manipulation by intervention and over-regulation is now coming back to tear everything apart at the seams. They refuse to listen. You cannot force capital to flow to unprofitable regions any more than you can force water to flow up instead of down.

The markets **ALWAYS** move against the majority **BECAUSE** that is the fuel that runs the engine. Every time the stock market crashes (except 2007), the government launches an investigation searching for the short that overpowered everyone. This very idea illustrates their ignorance. Short players are few and it takes someone with a lot of guts to short a bull market rising exponentially. They never outnumber the longs. Yet in the stupidity of this crowd they hunt down any shorts and treat them like traitors. They will often suspend short selling setting the stage for the real meltdown. For you see, the only person with the courage to **BUY** during a panic sell off is the **SHORT** who takes profit. When you hunt down the shorts, you eliminate the underlying support.

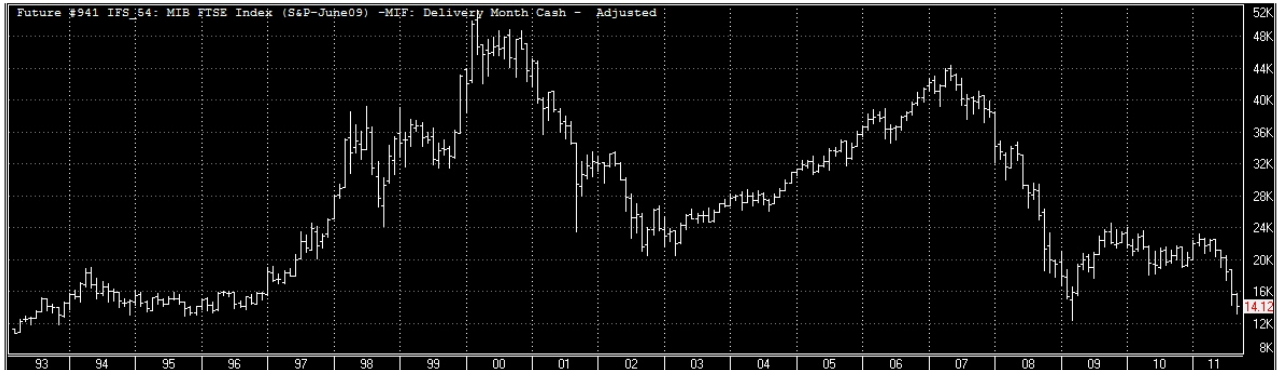
Government always turns to the mainstream economists for sort of stuff to head committees to investigate the economy. To me, it is like going to a virgin for advice of sex. If you haven't been there, how the hell can you write about something you have not experienced?

Debasement of Byzantine Gold 1068-1092



The collapse of every empire Greek, Rome, Byzantine, and China at various intervals, has ALWAYS come as a consequence of debt and fiscal mismanagement. Here you can visually see the collapse in gold content of the Byzantine Coinage that led to the Great Monetary Crisis of 1092. Why every government thinks it is exempt from such mismanagement is strange, but this refusal to even look at the past causes it seems a perpetual reoccurring crisis in civilization **WITHOUT EXCEPTION**. We are headed into the another crisis in civilization and there seems to be no means to stop it since politicians refuse to act in any way other than their self-interest of keeping power and controlling the economy.

FTSE London Share Index (Monthly 1993 - Date)



STOCK MARKETS

The markets that PEAKED IN 2000 (NOT 2007) are those which are vulnerable to **NEW LOWS** in 2012! The **BIG MONEY** will be going to shift into some blue chip US stocks for even the dividends are starting to exceed the 10 year US Treasury rate. This means that the DOW is not likely to make new lows since it peaked in 2007. Those that peaked in 2000, never quite made full bull market recoveries for capital instinctively anticipates the future even if those making the decision do so unconsciously. It is the **INVISIBLE HAND** that emerges from the collective synergy that moves the markets. The unsound system of the Euro may have been something that we wrote about in 1997 and warned that the foundation was not on firm ground; however, Princeton Economics was virtually alone on that point. Nevertheless, the UK, France and others did **NOT** make new highs into 2007. You have to ask the question why not? There was the Euro-Hype and just about every press story was how the Euro would be new currency of the 21st century. Politicians hurt their hands patting themselves on the back. While the **SEC** and **CFTC** will argue this is another example of how I single-handedly manipulated the entire world economy, something even governments can't seem to do, nevertheless, the truth is the collective synergy illustrated that Europe was in trouble long-term. This is not a coincidence, for such things **DO NOT EXIST**. If what everyone is touting as going up declines, then something is very seriously wrong.

For a long time there were gold bugs claiming the world would end because of a fiat currency system. Those that argued that in the 1980s confronted with a bear market for 20 years may be right in the long-term **COEXTENSIVELY**, but from a practical perspective, these types of **STRUCTURAL CASCADES** take decades. It is possible to identify an effect that is coextensively linked to the trend being observed, yet it is still not the root cause complete. This is like saying a person of 105 years old died of congestive heart failure due to the flu implying that age had nothing to do with it. Singling out ONE effect that is coextensive often misleads people. This is why it is essential to investigate **DYNAMICALLY**. Yes the earth will be destroyed either by a collision with a huge meteor or when the sun explodes. However, that might not be for millions of years. It is **ALWAYS** a question of **TIME**. The same is true with monetary

systems. It is **NOT** the fiat system that is the problem since historically there have always been such systems and some have survived for thousands of years. The essence of the problem always boils down to the actions of government and how responsible they are in managing the fiscal administration of the state. This is why the **TIMING** varies that tends to be measured in decades concerning monetary systems rather than millions of years when we look at earth changes.

French Cac-40 MATIF (Monthly 1991 - Date)



The markets are **NEVER** wrong. The trick is being patient enough to listen to what they are saying. In the case of Europe, we have serious problems being revealed by the share markets. We simply **MUST** pay close attention. When something is not doing something everyone expects, take a closer look for your observations are **WRONG** – not the markets! The fact that these markets **PEAKED** in 2000 and **FAILED** to make new highs in 2007, was a red flag that there was a structural problem. Here we have the French market CAC-40 and France was supposed to be the second strongest economy in the Euro. Clearly the **INVISIBLE HAND** was gesturing the failure of the Euro. The majority never listens. Now compare that to the British FTSE pictures **ABOVE**. Again, the **INVISIBLE HAND** of capital was pounding on the table that the entire European **SOCIALISM** structure was collapsing for clearly the Euro was not the common link or else we should have seen the FTSE make new highs in 2007 when the Euro based indexes did not. The real **STRUCTURAL CASCADE** goes beyond just the Euro alone illustrating that the Euro failure is coextensive with the collapse in the underlying **SOCIALISM** (Centralized Planning, Stated Owned Banks, Utilities etc.).

JAPAN NIKKEI 225 (Quarterly 1984-Date)



The collapse of **SOCIALISM** is further illustrated by the performance of Japan. This is one economy totally destroyed by politicians. As I have stated previously, Princeton Economics was called in to in 1989 PRIOR to the crash to set up hedging programs for Nippon Life and the Japanese Postal Savings Fund. These two clients had portfolios at the time in excess of US\$2 trillion. The government intervened and “asked” them not to hedge because that would make to market decline. By 1999, the government had to admit that its usurpation of the Japanese Postal Saving Fund, once the largest portfolio in the world, was bankrupt. They had used this fund to try to support te market and destroyed it singlehandedly. They succeeded in taking **SOCIALISM** to new heights. Centralized planning transformed a 2-3 year bear market into a 26 year depression. We do have a window opening in 2012 to complete a 23 year decline with the Nikkei cascades to a new low in 2012. If the Nikkei closes 2011 **BELOW** 8579, this will signal a new low in 2012. The model will then project the conclusion but there will be a possibility that we could see the 2012 low conclude the bear market and capital in Japan will at last shift from **PUBLIC** (bonds) back to **PRIVATE** (shares) signaling the collapse in **SOCIALISM** is indeed confirmed on a global scale. I want yiu to know, it doesn’t matter where we take this world, **SOCIALISM** has to go. Government does not know what it is doing and they just have to go. Eliminate government trying to manage the economy and we just may get to the point where we will see Tokyo rising. The Yen completed its 12 year decline perfectly in line with the long-term forecasts made back in 1995 calling for a 12 year decline. That was completed in 2007 with the Economic Confidence Model and we should have at least a 5 year decline in the dollar into 2012. This is typical of a final economic capitulation as capital. returns home to Japan.

Japanese Yen (Monthly 1991 - Date)



NASDAQ Composite (Monthly 1991-Date)



When we cross back across the pond and look at the United States, we still see this uneasiness insofar as this ongoing global **STRUCTURAL CASCADE** that is being driven by the final stages in the collapse of Marxism style government predicated upon (1) central planning and (2) the war against the **INVISIBLE HAND** to compel the free markets to perform as the government believes best even if it is contrary to everything the actually vcauses the markets to perform in the manner that they do (supply v demand).

I warned in the 2010 World Share Market report of August that year that the NASDAQ Composite was still vulnerable to new lows since this is one of the markets that peaked in 2000 and constituted a bull-top Phase Transition. The 2002 intraday low was 1108.49 and was also the lowest annual closing at 1335.51. The Minor Yearly Bearish Reversal still lies at 1194. This is the key area to watch. However, the major support lies at the Yearly Bearish Reversal of 975. And **ONLY** a yearly closing **BELOW** this level would signal a decline.

THE CURIOUS FACTOR in this index of the broad market is the fact that we had the Phase Transition Bubble-Top, but we have **NOT** generated a single **YEARLY** sell signal on the Reversal System. Compared to the Nikkei, that elected a Yearly Bearish Reversal in 1991 and a second one in 2000. The Nikkei has been in a clear bear market. The NASDAQ Composite has not yet provided any comparable sell signal despite the high being in 2000.

This lack of a Yearly Bearish Reversal being elected after 10 years suggests that new lows in the US are not guaranteed. The 2009 intraday low held the low of 2002. This again is a major departure from that of Europe and Japan. This brings our attention to 233150 for year-end closing of 2011. A close below this level will at least confirm a retest of support. The Slow Stochastic has not yet turned bullish and still remains in a bearish state, not that it indicates new lows, but it does not suggest the beginning of a breakout to the upside.

The Monthly level warns that a Monthly closing **BELOW** 224700 will warn we could see a collapse back to the 126500-119400 level. Some additional support lies at 202400, but a monthly close **BELOW** that area will confirm a sharp collapse ahead. The upward momentum appears to be lost on the monthly level and it appears a correction into 2012 is likely. Weekly models show a closing **BELOW** 215500 will

also signal a near-term decline should continue with key support at 204010 that if breached on a weekly closing basis, should signal that sharp decline.

Yearly Models warn volatility will rise sharply starting in 2014 rising into 2016 and then another wave into 2020. Monthly Models show September as a directional change with volatility rising Oct/Nov. Next year it looks like January, March, and June as key turning points with rising volatility in May and August.

Conclusion

To survive, we **MUST** look at the world around us, ignore the nonsense, and realize what is going on. The **Unattainable Illusion** never changed into something real. The dreams of the future lie broken, prostrate, chained and naked on the floor. There is no room for blind faith to remain. It is just a little late to try to keep the gaming going. Our **CONFIDENCE** is shaken and what use to inspire us has run dry. We are running out of faith and our dignity is not respected. That's just what's going on as government clings to the shrinking scepter of power.



Upcoming Seminar

World Outlook Conference

For the GENERAL READSHIP, a special ONE DAY seminar will be held in Philadelphia, on December 4th, 2011 that will run about 8 hours. The price of \$750 includes all materials and a one-year update service to specific forecasting. This will also include a luncheon. This will cover the World Economy and thus will include metals, agricultural, energy, world stock indexes, and bonds.

Analytical Training Session

Because of the overwhelming requests for a training session teaching technical and cyclical analysis techniques designed for traders, a one-day event will be held on Saturday, December 3rd in Philadelphia. The price for both days will be \$2500. **RESERVATIONS ARE MANDATORY AS SEATING IS LIMITED.**