Armstrong Economics™

Conspiracy Theories Cloaking Reality

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

I would like to thank 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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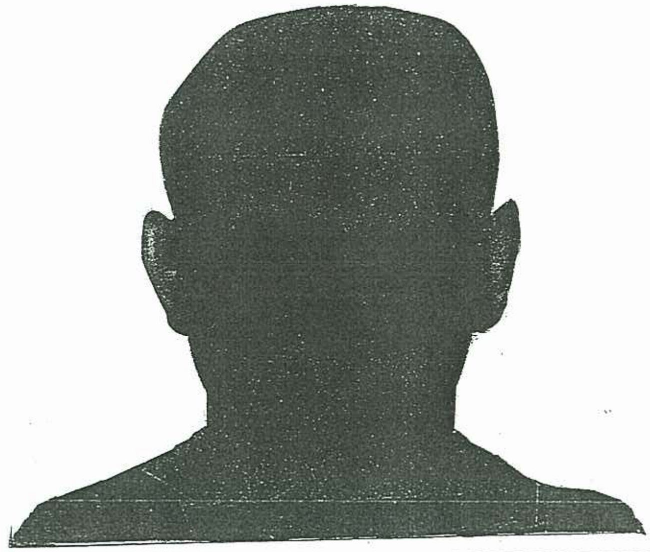
At a future date, a new edition of the 1986 The Greatest Bull Market In History will be released and a new book will soon be published on the model itself - The Geometry of Time. It is vital that we do not forget this is a world economy and the arrogance that any nation can dictate to the world is just 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.

Conspiracy Theories
Cloaking Reality



by Martin A. Armstrong

Former Chairman of Princeton Economics International, Ltd.
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WHY Conspiracy Theories about the world economy are dead wrong, can be summoned up very neatly - They are based upon the presumption of knowledge, strategy, and the ability to actually organize. When it comes to some of these outlandish theories, they are doing more harm than good, because they allow real dangerous activity to ferment. Those who see conspiracies behind every tree, are going over the top. I have been behind "The Curtain" and seen first hand what really is going on. I believe the need to create these broad conspiracy theories lies in the same root need for man to believe in God. They assume they do not understand what is going on, but obviously someone does. God is portrayed as all knowing and all powerful. The core assumption is that he cares about each and every person's life. This egocentric idea thus presumes that everything that happens is "God's Will." We affix the same traits to people, groups, and organizations, assuming someone is in charge. Who = Conspiracy.

I do not believe that Goldman Sachs is behind some world conspiracy to manipulate the world economy, create major collapses or with forethought, to eliminate their competition in a single bound. All of these events can be strung together to make a monstrous plot to rule the world. But when people go ahead and string these together, they are in fact masking the real issues.

After 5 years of not allowing the press to interview me denying anyone the access to prison, suddenly the New Yorker Magazine was allowed in. I was shocked to say the least. Friends and family were curious, warning me something was strange. Yes, one could come up with a conspiracy theory that Goldman Sachs was behind this to try to discredit me. Then, New York Magazine in its October 5th 2009 edition painted "ZERO HEDGE" blog as one of those conspiracy generators.

I took the position that it did not matter if I talked to the New Yorker or not for they would write the story anyway. But no doubt, there are those who would string this together just as the attempt on my life and attribute that also to Goldman Sachs. Granted, I find it strange that no one was charged with attempted murder when inmates who told the story informed me that the officer would not enter the cell and had waited for Mr. George to come out and then proudly announced he had killed me. There is no way for me to verify if he was paid or not. So yes I concede it is possible. I remain unconvinced that it was such a plot even though my own lawyers warned me that such things take place in prison. The day before the Boston Strangler was to get a day in court, he was killed. Oswald and the Jack Ruby event. It is true dead men don't talk. Perhaps I am a fool and will wait for proof. But I like facts.

There is no conspiracy that I have ever seen among corporations to somehow oppress the little guy, nor among central banks to control the world economy. I have personally worked with central bankers around the globe. I even gave a lecture at the BIS meeting in Paris and sat at the head table with the main central banks of Europe. I have sat between the banks and they do not agree. We had one of the big central European banks feeding us information that they wanted out in the real world, but they themselves could not release the information, that was anti-Euro prior to the formation.

I was, I believe, the first Westerner invited to Bejing during the Asian Currency Crisis. We were pointing to a change in the global capital flows back to rush into Europe prior to the Euro. This was causing a net capital outflow from Asia, causing the bubble to burst. Central banks have to be politically correct. They cannot be seen publicly blaming each other. So Princeton Economics often was the middle man, knowing that most of the big institutions were clients. Handing us info they wanted out, strategically placed that info in the hands of the professional world community. We were not the general media - we were the source in the institutional market.

Nevertheless, the real problem has been not the conspiracy theories to destroy the world economy. That benefits **nobody!** The only issue has been the manipulation of government in order to manipulate the law, markets, and obtain that "riskless" trade.

The old movie **Wall Street** with Michael Douglas has some great lines. The character Gordon Getko remarks that he is not interested in throwing darts. He wants sure bets. This is the real issue. It is rigging the markets, not permanently, just long enough to make fortunes.

I do believe that the "club" has managed to usurp government like never before. In my last writing of 10/2/09, I addressed the events of the 1930s and how the Roosevelt Administration embarked on a personal quest to abuse the law to criminally prosecute Andrew Mellon and Sam Insull as well as the head of J.P.Morgan at the time, Thomas Lamont. The abuse of the law was to retroactively redefine events that were legal when done, and convert them into crimes in current time. The ruthless Henry Morgenthau acted with total disregard for the Constitution.

It was the vicious and relentless acts of Morgenthau during his personal battle to criminally prosecute and imprison Andrew Mellon on tax evasion, that created the problem we now have. The amount for prosecution was about $3 million, when Mellon **previously** arranged to build the National Gallery in Washington and donate his art collection costing $75 million. The legal abuse of Morgenthau is standard today.

Even Hoover began a relentless investigation of the "rich" for which he apologized in his memoirs simply saying:

> **When a government gets enraged, sometimes it burns down the barn, to get the rat.**

Hoover admitted this was an un-American and disgraceful display of power. He summoned everyone to appear before the Senate and reveal their personal investments from Rockefeller on down precisely because of a telephone call he received claiming there was a conspiracy to collapse the economy to ruin his administration. They put Mr. Fox on trial (20th Cent. Fox) when he was too ill to attend and made so many false allegations, the wave of lawsuits that followed destroyed him. Willie Durant who created General Motors ended working in a bowling ally setting up pins. This was the blood-bath from which the SEC was born. America had devoured its best and brightest destroying investment in the process. This was no different than the Athenian trial of Socrates, his death sentence, that even Plato fled viewing Athens was no longer safe. Once it took place, this became standard practice.

Hoover scared the hell out of people and on such a conspiracy theory, short selling dried up. The reason shorts are so vital to a market, is that when a crash unfolds, only the short player has the courage to buy when all others are in a state of panic. The short is the person who enables a market to function. This is the primary reason the Dow fell by about 90%. There were no buyers and no shorts to cover their short positions.

Conspiracy Theories can be very dangerous. The Senate investigations only showed that the famous names from Rockefeller on down, were not short, but long, and lost a fortune along with everyone else. Morgenthau tried to convert any trading done by the "rich" into a crime just to punish them for what he saw was caused by them entirely.

THE BIRTH OF THE "CLUB"

Goldman Sachs was really a major trader in commodities. The birth of the "club" had really began with deliberate organization in the early 1970s. The origins can be traced to the Agricultural markets. There were only a small number of warehouses to store the physical commodity trading on the exchange. The exchanges would then publish the supply in the warehouses they recognized. This had opened the door to manipulation of information to manipulate prices.

Where in the movie **Trading Places** we watched Eddie Murphy be raised from a street bum to a commodity trader, all on a bet of $1. Ironically, among the so called "rich" there would be a bet for $1. It was not the money, it was the game. I may have made a few of those bets myself, but it was never over someone's life or altering that as was the theme in the movie. Yet the way Murphy gets back is manipulating the information. The commodity brothers are relying on that guaranteed trade with the report of crops and they too are seeking that "riskless" trade.

There is a underlying core of truth to both **Wall Street** and **Trading Places**. Do not think that these movie ideas come from no place. They are based upon real events, but the plots are exaggerated for the pure entertainment value.

The manipulation of markets was always the key objective. Not on a daily basis. Just to create short-term booms, or a crash. There were firms outside the "club" centered in New York such as Drexel Burnham, First Boston and Prudential to just mention a few.

I had dealing lines at most of the big houses. What did not come out in the papers when my case began since they were repeating only the government version and would never print what I had to say (except Gretchen Morgenson at the NY Times), omitted the facts that I did manage 3 hedge funds, (2) for Deutsche Bank and (1) for Magnum. There was no problem at any other institution with whom we had dealing lines, only Republic. In 1998, I was even named Fund Manager of the Year and that was based upon audited public funds. So there was a huge inconsistency that the good old USA prosecutors would not address. It did not support their case.

Because of my dealing lines around the world, my personal contacts were vast. There were many who were outside the "club" and monitored what they were up to this time. We shared information, and when I spoke to some desks, there were tapes on both sides. So there was plenty of evidence that would have exposed the network of firms who were monitoring the "club" and the government could have made their case then and there. Instead, the Securities & Exchange Commission, Commodity Futures Trading Commission, the Department of Justice, and the receiver Alan Cohen with his lawyers O'Melveny & Myers, LLP including Tancred Shiavoni, all conspired I believe to seize all those tapes from my lawyers threating Richard Altman with being thrown in contempt himself if he did not turnover all this evidence.

There was a hearing on February 7th, 2000 where I stood up and told the court that this was an ongoing investigation that probably exposed a number of the big houses to criminal prosecution. The Assistant US Attorney Richard Owens, personally told me the government had no interest in prosecuting them, offered me a deal to just plead guilty and they would release me with no jail time, and since the owner of Republic National Bank, Edmond Safra was killed, I didn't even have to testify. I refused the offer. This was in about April of 2000.

So the government (SEC, CFTC & DOJ) all had the info that led right to AIG and Goldman with recorded conversations of many who were contributing to monitor their activity. I did warn clients, but I never revealed who was behind a particular move.

The head trader of AIG managed to sneak in to see me. Margaret Thatcher's former chief economic advisor became a board member of AIG in London. He called me saying he was coming to the US and asked if he could stop by to see me. I naturally said yes. I was surprised it included the head trader from AIG asking me to stop talking about manipulating markets.

This is when Philip Brothers got their flunkie pretend independent forecaster to get the Wall Street Journal after me. They then thought to smear me as the source of these manipulations. As I said before, the WSJ called, accused me of this nonsense, and it got heated. He insisted I tell him who was behind it. I told him he would never publish the name. We argued more. I finally dared him to investigate. I told him it was Warren Buffett. He laughed. He said everyone knew that Buffett did not trade commodities. I told him that how much he knew.

The "club's" attempt to shut me up now backfired. The CFTC called me. They monitored trading positions in the US and knew I was not a big trader in silver. I told them it was taking place in London, out of their own jurisdiction. They told me they could make a call and had access to those markets. I gave them no names, and said they would have to make that call.

The CFTC called the Bank of England who then ordered all silver brokers to show up at their office in the morning. That night, Warren Buffett came out and said he bought $1 billion worth of silver. It was a long-term investment, and he was not manipulating markets. Buffett was forced to come out of the box to stop the investigation. Had the investigation gone ahead, they would have discovered the coordinated positions of the "club" so Buffett was smart indeed.

There is a interesting book that came out in 2008 published by Bantom Books that was written by Alice Schroeder, who was a former Managing Director at Morgan Stanley. While Ms Schroeder is a personal friend of Mr. Buffett so one should not expect any deep effort to uncover events. **"Snowball"** offers still some interesting historical background to his early business practices.

The involvement of Buffett getting in bed with the "club" came with his decision to get in bed with Solomon Brothers. Those who were in the industry back then in the '70s and '80s, remember the firm by the name "Solly" for short. The firm began in 1910 as an effort of Arthur, Herbert, and Percy Solomon. When the Federal Reserve was born in 1913 and World War I began, the firm specializing in short-term loans, then became a primary dealer selling US government bonds.

The philosophy of Solomon Brothers was to let the profits ride and accumulate the capital to keep forging a bigger firm. The fate of Solomon Brothers was strangely tied to the **Economic Confidence Model**. It was in 1978 that John Gutfreund became the head of Solomon Brothers. As the peak in interest rates had arrived with **Economic Confidence Model** in 1981, Gutfreund was now selling the firm to the huge commodity firm Philips Brothers of Marc Rich fame.

Gutfeund became a co-CEO with Phibro's David Tendler. The commodities crashed and burned and the tables were turning. Gutfreund now seized control and started to expand the firm now into currency trading, and enlarged the firm's positions in underwriting and share trading. Solomon Brothers was now also trying to expand into Japan as well as Germany and Switzerland.

Princeton Economics had become rather famous behind the scenes. There were rumors of a computer model that would always end up as a topic one way or another. Our clients were far and wide. We opened offices in London in 1985 and shortly thereafter in Geneva. We were receiving overtures from many firms, and that had included Solomon. Even the Gaon family of Geneva threw a huge party for me inviting the movers and shakers of Europe trying to impress me with their clout. They wanted to use my name personally to create a new financial firm. The Gaon family owned NOGA Hiltons throughout Europe.

I preferred independence. I have been told that this was taken by many to be a desire to keep the computer expertise top secret. I had rejected offers to accept any partners who wanted to buy into the company. Eventually, what I did do was create a new Franchise with offices opening up around the world with partners managing their local regions.

A competitor had even gone as far as perhaps create his own little conspiracy by sending in a plant to work inside the firm. It has been argued that the adoption of our computer served as a competitive advantage that caused many to now start hiring PhDs to create computer models that led to the derivative explosions. All I can say is that our computer was not set up to create a derivative market nor to expand daily trading in arbitrage.

It is true, that the computer wrote the monthly reports and the daily newslines. The technical forecasts were all written by the computer in English. We would edit them and the lead articles I wrote. But yes, the computer wrote the reports.

I will concede that perhaps we were the first to use computers in the field. And I can see the other side that it might have been my protection of that comparative advantage that sparked others to try to mimic that advantage. But that is as far as it goes for we neither focused on creating derivative products nor arbitrage.

Buffett's exposure to commodities and the "club" thus came from his involvement with Solomon Brothers based upon information and belief. Phibro peaked with the commodity markets 1980/81, and then the flight to the dollar and the domestic flight to quality turned Solomon Brothers into the "King of Wall Street" going into the bottom of the **Economic Confidence Model**, July 1985. Indeed, Solomon's profits peaked in 1985 at a bit over half-billion dollars.

The end for Solomon Brothers was now in sight. Internal departments began to in fact compete. Traders who had been in the core business were leaving and now being offered million dollar salaries to get the expertise. Solomon had expanded its staff by 40% in 1985 right at the high. The turn on the **Economic Confidence Model** in July 1985, had sealed the fate of Solomon Brothers for the formation of the G-5 and the public statements that they wanted to manipulate the dollar down by 40% to ease trade deficits for the US, meant one thing. A massive drop in the dollar would cause a massive exodus of capital from the United States and that would also mean US debt sales overseas.

It was in 1985 that I wrote to President Reagan warning not to start manipulating the dollar. I warned that volatility would jump and capital would flee resulting in a major crash. I received a reply from Mr. Sprinkle who was the Chief Economic Advisor in the White House. He thanked me for my concern, but they informed me that Princeton was the only firm with such a computer model warning that volatility would explode. He informed me that until someone else created such a model then the White House could not rely on just one such model. I felt I at least did my duty, and thereafter was reluctant to bother with governments in general. When the 1987 Crash came and the capital was pouring out of the United States headed for Japan that created the bubble top there in 1989, then suddenly governments wanted to know what next.

I believe this is where we draw the line for the real birth of the "club" insofar as an organized consortium. Buffett's venture into Solomon Brothers introduced him to the new world of big bets, derivatives, and the way money had always been made in commodity markets - inside info.

From 1986 there was a rise in efforts to group togther to make things happen. The schemes grew bigger and bigger. They even reached into the circles of politics bribing Russian officials to withdraw platinum from the market to "take inventory" causing the prices to soar.

The manipulations became bolder and bolder. I began to hear Buffett's name in these circles by the mid 1990s linked to Phibro. When Buffett was forced to come out and admit he bought $1 billion worth of silver, many did not know what to think for Buffett and commodities had not been a common link previously.

Post-1986, the traders from Solomon began to jump ship and headed into the light of Goldman Sachs and the big salaries. Here too we have a commodity background and familiar territory.

The market manipulations thus graduated from the moving of inventories from one warehouse to another to manipulate the agriculture markets to now the new financial markets. Because Princeton Economics had foreign clients long before Wall Street boys, we were up and running in currency markets and forecasting before even Solomon Brothers entered the field. So our contacts around the world knew what was unfolding as the NY boys tried to muscle into global markets.

The manipulations stayed with mostly the commodities. There were deals done on silver, rhodium, platinum, and copper. They were not up to speed for gold or the currencies yet.

Based upon information and belief, it was the brainchild of Goldman Sachs that at least knew where the flame of power truly lies. Mr. Sachs himself was summoned before Congress and questioned during the Depression regarding the collapse of its products. So Goldman knew the only way to win consistently, was follow the flame of power. The objective was to groom alumni for political appointments.

It was a clever strategy to buy the government by funding the political elections, so that it did not matter who was in power, alumni would infiltrate both camps. The events of the Great Depression and the ruthless conduct of Morgenthau acting as Treasury Secretary, not Attorney General, served as the game plan. Obviously, if one could fill the post of treasury, they could prevent what Morgenthau did altogether.

The overtures to myself at first, I did not fully understand. I kept getting offers to buy in. Join the "club" and stop fighting them. In a metting with Dov Schlien who was President of Republic National Bank, I was solicited to bring over $10 billion that a consortium would provide a AAA rating. They wanted me to bring Japanese capital to New York. There were even emails on this meeting so support what I am saying.

The manipulations were growing in boldness and scope. The platinum manipulation that ended even in Ford Motors suing, was bribing Russian officials. The degree of coordination was growing and the objectives were certainly the plot of some movie.

I believe that perhaps because there were key alumni in strategic places, they believed they bought off the government at every level including the SEC, DOJ, and CFTC, they no longer feared investigations and this fueled the boldness of the ideas.

They kept trying to get me to join. I came to realize it was not just the money they thought I could bring from Japan. $10 billion back then was real money that now is probably $50 billion in real terms.

I believe what they wanted was to buy me and turn me into a kept analyst as so many others filled their stables. If they could corrupt Princeton Economics into now putting out specific forecasts, they seemed to think they could control the information flow and manipulate the markets. Afterall, that is how the G-5 created the 1987 Crash with a lot of talk.

Republic and Safra had a front in Russia by the name of Hermitage and this was the center piece for investing in Russia. After Safra's murder, Putin kicked the CEO out of Russia and would not let him return.

I believe bribes were being paid to IMF officials to keep the loans going to Russia. Safra had rented the entire National Gallery donated by Andrew Mellon to hold the IMF Diner and I was invited to show me the power they had behind the scenes.

I stood my ground and declined to bring capital from Japan or to advise on any such investment. I told them flat outright, our computer had warned Russia would collapse in the fall of 1998. They felt, like the movie **Wall Street**, that if they had strategic alumni in place, the IMF in their back pocket, not to mention the Russian politicians, how could our computer be right? I delivered that forecast in London in about August 1998 that the Financial Times carried on its front page. Russia blew up. The debt collapsed. Long-Term Capital Management like others, who were part of the club, were trapped. They could not get out of an illiquid market and began to sell everything. The **"contagion"** spread like 1931 as capital was gushing out of one market to the next. I was voted Fund Manager of the year for we produced over 60% returns with only about a 23% of the time even having any positions.

The credit risk became massive. Long-Term Capital Management was now bailed out because its counter-parties in the "club" would have exposed Goldman Sachs and others.

Yet the boldness did not end there. Safra conspired with two Russian mafia guys Barisnofsky and Gizinsky, to try to install one of them as the new head of Russia. They plotted with Yeltsin to divert $7 billion from IMF funds and steer the wire through Bank of New York. As soon as the wire hit, Republic ran to the Feds in August 1999. Yeltsin realized he was set up. They wanted him to resign. He turned to Putin instead. Barisnofsky and Gizinsky fled Russia. Their assets were confiscated. Safra fled from Geneva to Monaco for safety. But it mattered not. He was killed. There is a good piece by Dominik Dunn in Vanity Fair on the murder of Safra. You will also find a book **Red Mafiya** by Robert Friedman detailing the Safra connection with the Russian Mafiya.

Don't worry. The SEC, CFTC, DOJ will at all times protect the "club" from investigation. The manipulation of markets will continue. I believe the US is making the same mistake as the Catholic Church. You cannot hide the truth.

CONSPIRACY THEORIES can be dangerous from two perspectives. When government jumps to such possibilities as did Herbert Hoover, he destroyed the core trust of capital within government. The second danger, as used in the immediate case, they can be spun far beyond what is actually taking place to make those who come forward into nut-jobs in order to cover-up the real true conspiracy. To go so far as to create giant conspiracies to control the world and deliberately destroy the economy as being put forth today, and were in fact used to move Hoover into action, simply lack both credibility and power no less motive and objective.

The assumption that any group would and has joined together to deliberately force the economy into a meltdown for personal profit is absurd. This is anointing them with power and mental capacity that they do not possess.

This is not some plot from a B-Movie of where a secret group is conspiring to rule the world. This is practical reality. Just as the world central banks could never agree so how can there be some plot to coordinate the economy to gain power? Who would rule? Just look at the European Union. The head has to rotate for that very reason.

My personal experience with the central banks was that they were no different than any other client. They had no clue what was going on and were calling to get info. So I fail to see this super-human ability to know the future and be able to manipulate it at sheer will.

The collapse of Russia and Long-Term Capital Management was because the "club" was operating under the assumption that the governments had been doing themselves. If you can rig the game, you control the outcome.

The Russian collapse in 1998 took place because of this arrogance that reality could be manipulated. But the **Free Markets** are just never wrong. The fundamental unsound position in which Russia existed with $100 billion in capital inflows and $150 billion in outflows, something had to give. Russia collapsed and controlling the Fed, Treasury, and IMF, did not prevent the collapse. They convinced the Fed to bailout a hedge fund, but that was because their positions on the books at the banks created huge losses. In the real world, Goldman and others may have gone belly-up then and there. But the Fed covered the loss and thus indirectly bailed out the banks yet the press played the story it was the hedge fund they bailed out. <u>**W R O N G!**</u>

The current meltdown has been created by the very same arrogance. Mortgages were then pooled and the presumption was that these were implicitly backed by the government, so they were really AAA. They assumed that if anything went wrong, the government would pay for it. Once again, the product was seeking high real returns, and presuming zero risk. AIG bought this idea so much so, they just wrote the paper and didn't even bother to back it. Why? It was implicitly guaranteed by the USA.

A Credit Swiss broker was put on trial for telling this very theory to American corporate clients. Not moms & pops. He was found guilty and is awaiting sentencing. Just as the Japanese government only targeted foreign brokers in 1999, never domestic, the US has done the same thing. Again it is Credit Swiss who is attacked for telling the very same story that any member of the "club" told their clients.

There was no concern about backing. They did not bother to even create long-term models to back test any of this. Why? Because they just presumed the government stood behind it all and it didn't matter.

This is why local banks didn't even bother to worry about the individual credit behind a mortgage because now they were being pooled, not sold individually. **Every** normal step in the process that had prevented this sort of sloppy lending in the past, had now become old school.

So when people see giant **CONSPIRACY THEORIES**, I see the Keystone Cops who can't get anything right. The problem is this need for perfect returns. This leads the "club" to seek the perfect trade. Like the movie Wall Street, throwing darts is for suckers. Create the perfect trade by controlling the SEC, CFTC, DOJ, Fed, and US Treasury. Keep the government in check by their need to sell debt so they will not indicted their primary dealers.