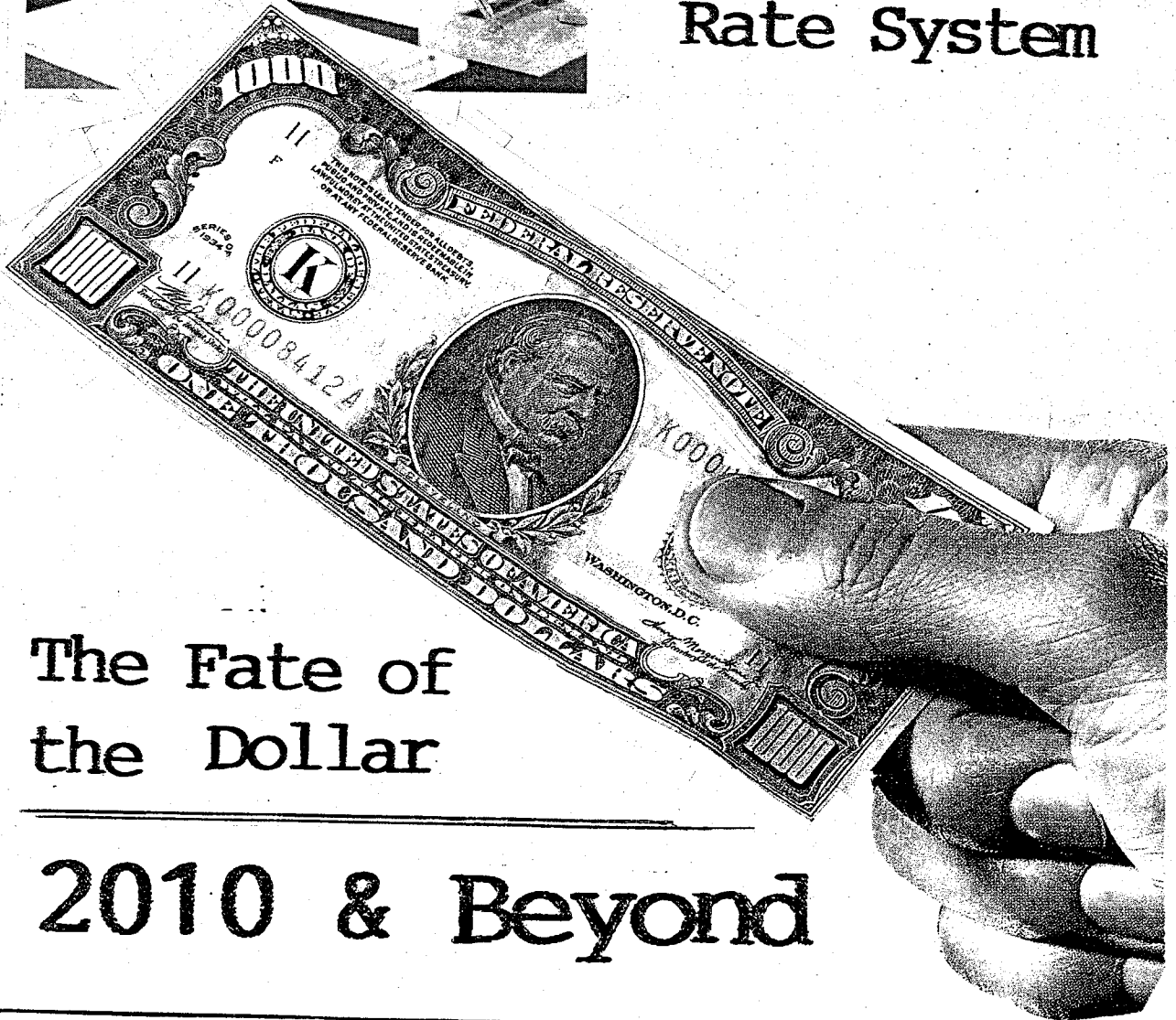


Armstrong Economics™



Creating the
Floating
Exchange
Rate System



The Fate of
the Dollar

2010 & Beyond

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

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ACKNOWLEDGEMENTS

I would sincerely like to thank everyone for their support. It has meant a great deal to me and my family.

I believe we are at a crossroads where we are in serious danger of creating an economic disaster beyond belief. The corruption is running so wild, it prevents us from correcting our system to save our own future. It is far more than mere volatility in financial markets. Our children and our grandchildren will **NEVER** know the world we once enjoyed. With economic decline, comes the finger-pointing, tension, and then war. When the Supreme Court ruled that black were just property and had no rights even if free in the **Dread Scott** decision, they then also created the Civil War for they illustrated that law, which was to be the essence of civilization providing the alternative to force, did not exist. We have reached that point once again for there is no **Rule of Law** and that is destroying the essence of our civilization once more. Courts will simply rule only in favor of the government in critical issues for judges are merely political appointments.

No matter what country you live in, we must be mindful of what is going on. We must look not merely domestically, but to the global horizon to understand the dangers we now face. Government is imploding, for the Marxist systems that they adopted, has created a debt crisis that is truly unprecedented. They borrow every year with **NEVER** any intention to repay anything, consuming capital and creating the very thing they pretend to be fighting against. They claim to be the champion of the poor and the little guy, while they borrow so much, the interest payments to keep the shell game going is the greatest transfer of wealth to the very people they claim to be against. They are stripping our children of their future, and nothing will stop them until the music stops, and there are not enough chairs for everyone to take a seat.

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GOVERNMENT TO GET POLITICAL CHANGE MOVING**

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This Report may be forwarded as you like without charge to individuals or governments around the world. It is provided as a **Public Service** at this time without cost because of the critical facts that we now faced economically. The contents and designs of the systems are in fact copyrighted. At a future date, a new edition of the 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.

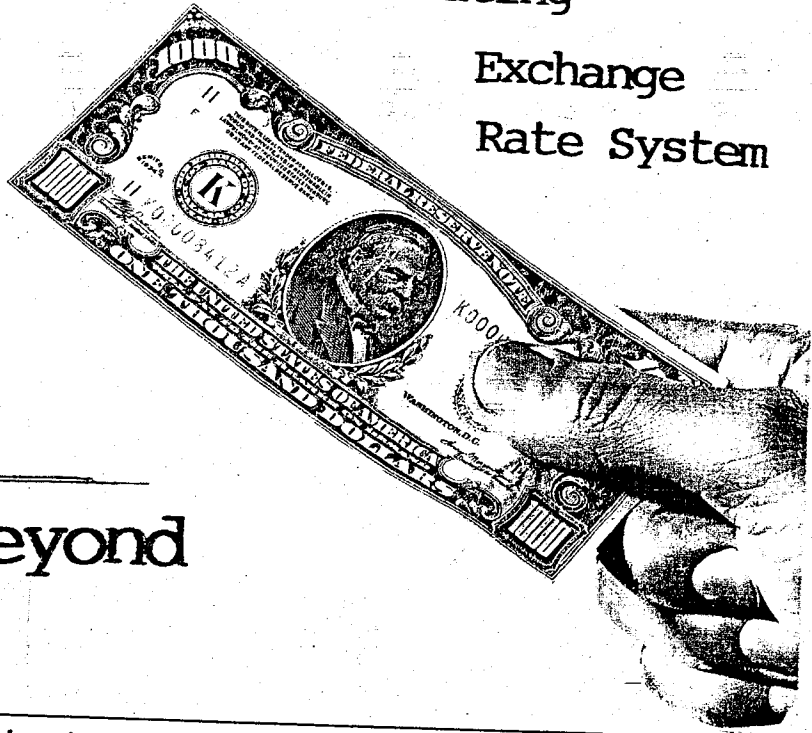


The Fate of the Dollar

2010 & Beyond

Creating the Floating

Exchange Rate System



By: Martin A. Armstrong

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

CREATING THE FLOATING EXCHANGE RATE SYSTEM was not something that was ever actually debated and designed in advance. There was simply rising core disputes over trade and the fact that both the French and the Swiss were constantly redeeming dollars for gold. The United States was dead broke. It had squandered all its wealth because the nation was run by a system that created an incentive to spend money in order to gain reelection. It was Adam Smith's invisible hand that worked silently behind the scenes to undermine everything that had been accomplished since the birth of the nation. Many hate my guts because I believe in the real "Free Markets" and by that I mean that no matter what, the reality will always catch up. They had created a system in 1944 at Bretton Woods that obviously lacked common sense. How can you fix gold at \$35 per ounce, yet at the same time, allow unlimited spending creating an endless supply of dollars? Didn't anyone realize that such an imbalance was UNSUSTAINABLE? That is what I mean by the "Free Markets" insofar as it matters not be it private or public, capital is like water, it will find the crack and just leak through the pot. It cannot be stopped. Laws are only a form of tyranny, for you cannot legislate against common sense or human nature.

The birth of the Floating Exchange Rate System simply just happened. It was not designed, nor was it intended to be a permanent system. It was a response to a trade dispute that became sidetracked by the rise of OPEC during the 1970s. Demands that oil will now be controlled and the price raised, had a sweeping impact upon the whole economy worldwide. Manufacture that had been built upon cheap energy costs were turned on their head. While inflation was attributed to OPEC, in reality, this became an excuse to raise prices generally.

Yet the Floating Exchange Rate altered everything. They did not realize what they had done, but in effect, the entire world would never be the same. Each and every economic statistic was changed, yet nobody seems to understand that this is so. We have countries arguing over trade that is flatly incorrect and people calling for another Great Depression yet fail to understand that for history to repeat the same way, that means the dollar must rise in value, not decline, and its supply must contract not expand.

In a gold standard, everything is then measured in terms of gold. In a **Floating Rate** there is NOTHING that is constant. It becomes relative to the last time value was calculated. For example, look at ple, when British Airways introduced the Concord in the early 1980s and the pound was \$2.40, the price of a ticket was 2000 POUNDS = \$4,800 ROUND TRIP NY/LONDON. The British pound fell to \$1.03 by 1985. Now that same ticket was about \$2,000. The plane was full because a First Class ticket on TWA at the time was about \$3,500. The Concord was now a success and the British raised the price to 5,000 pounds, pricing it above standard First Class on a conventional flight. But the pound rallied back to nearly \$2 making the price of that ticket about \$10,000. The rise and fall of currency was altering business, and to a large extent, contributing to what I would come to call "**currency inflation**" meaning the currency swings was becoming the driving trend behind price movement.

How do we measure value when everything remains in a state of flux? If you earn any money, the socialists want to subject you to a progressive income tax. What they don't tell you, is that inflation is carrying you into a higher and higher tax rate. In World War I, a welder earned \$20 in gold per month. That was good money, enough to support your family. If wages were frozen and prices free to rise, \$20 won't even buy a subscription to a newspaper. The term "**millionaire**" was really a wealthy person back then. Today, the average man will earn more than that in his lifetime. What was once "**Millionaire's Row**" in London, is now "**Billionaire's Row**."

On the front cover, I have illustrated a \$1,000 bill printed in the 1934 series. Once upon a time, that was serious money. The top line of a car was less than \$1,000. To issue a note that would have the same purchasing power today, it would have to be roughly a \$72,000 bill.

Why has the government stopped printing large denominated notes? They fear that cash can then be hoarded and large denominated notes would allow people to store vast amounts of money. For tax purposes, the United States will not print large size notes. Europe will print large notes, but they routinely cancel the currency and replace it. This has forced those who hoard cash to come in and exchange it for the new version. By the way, did you pay your taxes on this?

Quixotic Gold Standard

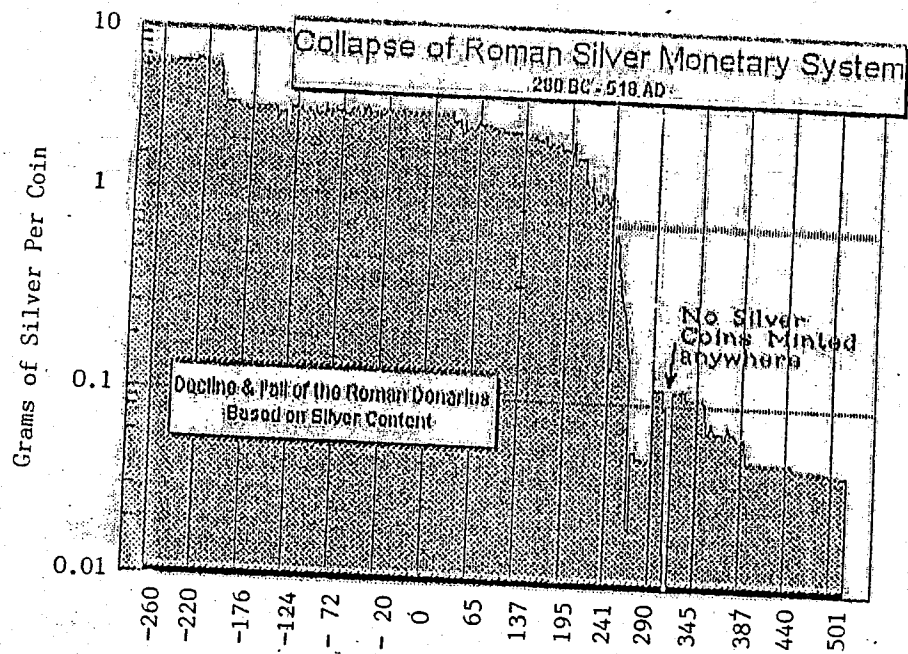
There remains a very foolishly impractical nostalgic vision of the **Gold Standard** that is like remembering an old relationship. With time, we remember the good times we had with that particular person. Our mind glosses over the bad and we forget why we broke up in the first place. Remembering the **Gold Standard** is no different, for it seems to invoke a lofty unrealistic view of the past that inspires great romantic ideas and such extravagantly chivalrous action. Within this imaginary world, we conjure in the caldron we create in our mind mixing up facts and leaving out what we do not want to listen to, and pronounce that had we been on a **Gold Standard** we would not have these economic collapses that are near-death experiences.

While these visions of history are grand and we can stir that caldron until we have the perfect intoxicating brew, when we wake up from this drunken steeper, we must still face the hard light of day. I have studied the rise and fall of civilizations from the beginning. I believe **GOLD** is the neutral store of wealth that pierces the veil of political instability. But it will **NEVER** by any means provide a fool-proof monetary system that will protect us against the evil dark lords. **Ain't gona happen!**

I have reconstructed what no one else seems to have ever been so possessed to do. I rebuilt the monetary system of the world creating a databse that was unmatched. This allowed me to look objectively at the whole issue of debasement, and found that just as we have monetary problems today, so did the ancients.

In fact, the **Great Monetary Collapse** of the Third Century was so profound, this was the primary reason for the rise of Christianity for when people prayed to their gods and nothing happened, they were ready to try something new. But this collapse of the monetary system was so profound, the government would no longer accept its own coinage and imposed **Taxes In Kind**, meaning, they would take physical property in payment such as grain or livestock.

That debasement began with a slight reduction in the silver content of the Roman



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denarius - the dollar of ancient times. The culprit **Nero (37-68AD)**. The complete collapse came during the reign of **Gallienus (253-268AD)**. The decline from start to finish was just 224 years (26 waves of 8.6 years).



Byzantine Gold Solidus

After the fall of Rome in 476AD, the real power shifted to Constantinople. The Eastern half of the Roman Empire survived, while the West fell into city states and feudalism. The people migrated for safety and this became known in latin as "**suburbium**" meaning that people fled from the cities and adopted a more local life. Property ownership disappeared but for the landlords who could protect their workers. So people sold themselves and their families in return for shelter and protection.

The Byzantine gold solidus became the new world currency. It has been found in digs as far north as Scotland and as far east as China. It facilitated trade because it was a recognized quality standard, and military power. Byzantium even waged war against some countries who tried to mimic their currency. It was prestige.

Nevertheless, what supported the power of Byzantium was a constant supply of **NEW GOLD**. Their famous mines had even been used by the Egyptians and were located in the ancient region known as **Numidia**, located in North Africa east of Mauretania found today in Algeria where the chief city was **Hippo**.

The collapse of Byzantium began with the rise of the arabs, for as they swept North Africa, Byzantium lost its source of gold. **Once** that fresh supply to keep the money supply growing was cut, it was like cutting off the water supply to a city. By 1453, the once great city of Constantinople, fell with its last emperor fighting in hand to hand combat on the city walls.

Now we can adopt an unrealistic view of history and cling to the nostalgia that somehow Byzantium was the ideal city for it had a gold standard. But we would be drinking our own bath water. Byzantium prospered **NOT** because of the gold standard, but because of the steady increase in its supply. Once that supply was cut, debasement appears during the late 11th Century. The gold coins of this later period are of such poor quality, their color is a very pale yellow. They were mixed with silver to the point that **Solidus** no longer was minted and old coinage was quickly melted down to create larger quantities of a debased issue. The people, hoarded the old coinage as they did in the 1960s hoarding silver coins after 1964. They will always hoard no matter what.

Sir Thomas Gresham (1519-1579) was a major economic advisor to Queen Elizabeth I in England. He established what has become known in economic theory as "Gresham's Law" that bad money drives out good money. What he observed was that when a state starts down that road of debasing its money (reducing the content of precious metal) then the public will instantly begin to hoard the older higher metal content.

We can be nostalgic and impracticable all we want. But the Gold Standard will not save us and it will create a depression today if we tried to adopt it. WHY? Because we cannot enjoy the cushion that Byzantium had. What I mean by that is simple. Their economy was no different than ours today insofar as the state spent what it wanted. The mines were flowing gold and thus the money supply was constantly growing as new supplies of gold came into the system. This was as inflationary as we saw in the days of the California gold rush. Today, even the deep mines of South Africa have now peaked and gold production is steadily just declining.

Gresham's Law is still doing quite well almost 500 years later. Reach in your pocket and start looking at the date of the once

copper penny. You will find that the odds are very slim that you will discover a penny pre-1982. Why? That is when the government took the penny and removed all of the copper because the penny began to be worth more than a penny. They are now zinc with a copper plating to give you the false image that nothing has changed.



THE FIRST PENNY PURE COPPER 13.48 grams

Today, the copper in one penny from 1793 could make close to 1,000 pennies today. It is the oldest trick in the book - DEBASEMENT. You can actually sell pre-1982 pennies for more than a penny. Indeed, **Bad money drives out good money from circulation.** During the 3rd Century, the Romans removed the silver from the coinage and replaced it with a bronze and then invented a form of silver plating to make you think they were silver.

I have studied the entire monetary system of mankind from its beginnings. I have studied why **Gold** above all else, evolved into that very status of being wealth. I have studied the core actions of government and tried to find systems that worked while others failed. All of that study revealed nothing where a single system ever produced the fictional ideals that so many espouse and attribute to the **Gold Standard**.

I am no mouthpiece for government. I do not accept the system of destroying our very future for the sake of instant profits be it by private self-interests or political self-interest. So I have no self-interest in either trend, I believe in **LIBERTY** that I define as the freedom from either oppression.

There is no magic cure for our evils for there can **NEVER** be any fixed rate system for who will change it when necessary? **Julius Caesar** had to come up with a calendar putting the system on automatic pilot because allowing the priest to insert days led to corruption.

Money supply **MUST** grow with the population or else there will be deflation. People wrongly believe that their home has been their savings account. What they fail to see is that 30 years of paying property taxes and the rise in inflation has diminished the real tangible value of the "equity" in the home. Then the government wants to tax you when you take that inflated profit, but on a real net basis, you would have been better off just buying gold. Why? It wasn't taxed every year for just owning it along the way. Compare what a car cost when you bought the house 30 or 40 years ago. Now look at what they cost today. After property taxes all these years and the income tax you will have to pay when you sell the house, see if you really made any money at the end of the day.

As population grows, there must be more money to go around. The greatest problem the **Gold Standard** has presented, is the failure to coordinate the expansion of money with the needs of the economy. The major gold finds from California, Canada/Alaska, Australia, and South Africa, created vast economic swings during the 1800s. This in part fueled Marxism for people did not understand what was taking place and needed to blame someone. Marx was there at the right time with his view of hate for anyone who had more than him throughout history.

Marx looked into the eyes of history and only saw money. He wrongly believed that self-interest somehow was limited to private people and failed to see the greed of not individuals, but the state. The self-interest is not limited to the private sector. All governments are just as ruthless and will always, and without exception, oppress their subjects for survival.

**MONEY CAN BE ANYTHING
FOR IT IS MERELY SOMETHING
THAT MAY BE VALUABLE TO ANOTHER**

The goldbugs will always quote **John Exter**, a Citibanker who was also sent to South East Asia by the US Government to help create a monetary system out there. I knew **John**. In the early 1980s, he was reading my work and called. He flew into Princeton and we spent the day together. **John** was a hard money man. He often took the position that the whole floating exchange system was nuts and argued that the dollar had become just and IOU worth nothing. **John** was probably the first person who felt compelled to get me into the academic side of the debate. I was just the global fixer-upper who cared nothing about the system, for I did not see where I had any influence or power to alter that system.

John flew in to show me his life's work. He wanted to show me his view on how money and interest rates worked and why we needed to return to a fixed exchange rate system backed by gold. I was not so passionate in this regard. I was having fun. The floating exchange rate became my specialty. I will save for my memoirs the name. But when a major country found itself in trouble with pegging its currency, a political crisis evolved. The head of state had promised not to devalue the currency. If he did, it would be political suicide. So I advised them there was no choice save bankrupting the country. I thought about the political problem in light of the economic reality. I then had an epiphany. I remembered the words of **Richard Nixon** on August 15th, 1971. He did **NOT** say he was going to "devalue" the dollar. He said he would let it,

FLOAT TO SEEK ITS OWN LEVEL

I wrote a quick speech; just a paragraph actually. I was quoting Richard Nixon to a head of state without saying who inspired

those words. It was read to the nation. It saved the day. There was no "devaluation" that had been a campaign promise. Here, the "**Free Market**" would be allowed to set the price. For you see, one of the reasons I was a global fixer-upper, was I knew how to also blend the advice with practical political solutions.

That is my point here. I could bullshit you and say the **Gold Standard** would have never allowed the inflation we have seen post-1971. But that would be **FAR FROM PRACTICAL!** You see, the reality behind this system is that it has fueled political careers. They have been able to just spend and borrow to cover their very impractical promises. There is **NO** possible way a **Gold Standard** would have prevented what we face today, for they would have debased that to achieve the same political goals no different than the Romans or the Greeks.

HUMAN NATURE WILL NEVER CHANGE

The monetary system can be based on sea shells, lumps of iron, cattle, sheep, or even moon rocks if we want. The object **MUST** be perceived to be of value. Gold began only as jewelry. It was a color that attracted women and men.

A host of different animals find the male builds a nest and adorns it with bright and shiny objects. They will take tinfoil and fill the nest to attract a female. Most males have physical traits all designed to attract the female be it antlers, bushy main as a lion will flash around like a male model, or even a peacock with bright feathers. Male ducks are typically bright and colorful as mallards where as the female is just brown.

Gold became valuable because it was used as jewelry to attract females. They loved it. Its rarity evolved and in some societies it was confiscated and only allowed to be worn by kings. Only as **Gold** started to become more common, did it start to trade as any such commodity having value. It was **NOT** perceived to be **MONEY** as the alpha & omega as the **Gold Standard** advocates say today.

There is **NO** empirical evidence to show that merely because there is a **Gold Standard** there will be neither inflation nor economic near-death experiences. The **Gold Standard** did not protect the Greeks, Romans, nor any other society whatsoever. Civilization still rose and fell.

We **MUST BE PRACTICAL** and approach the subject of money without passion. Identify the real cause of the rise and fall of **ALL** societies. We have to realize that it is simply human nature that no matter who is in charge, they will always cheat to benefit their personal self-interest.

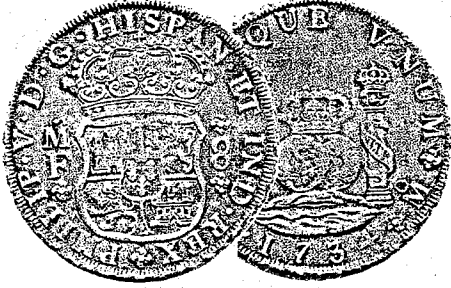
The socialists are dreaming or smoking crack when they claim that the private sector is corrupt, so we should control everybody by tyranny - the force of law. What if they are wrong? What right do they have to force their theory upon anyone else and then deprive them of the liberty to make their own choice in life. We all have but one life and it is not the property of the states!

Why would we create a system that there is not a single incident that illustrates that a gold standard ever prevented anything of which they warn about. We can only realize that what is going on will never be solved by trusting human nature. Power corrupts and just handing power to regulate to the government will not protect a damn thing.

The only hope we have is to reorganize government from top to bottom. We must take the judiciary away from the executive and give it back to the people, for unless this is done, **NO LAW CAN BE ENFORCED AGAINST THE GOVERNMENT WITHOUT JUDICIAL INDEPENDENCE.** It should be administered by the American Bar Association where **ONLY** private lawyers will sit in panels of 3 judges rotating such posts annually. In the **Declaration of Independence** Thomas Jefferson wrote that the King protected his agent with mock trials. In **Magna Carta** the same demand that only competent men should be appointed as judges who were willing to uphold the law, **Chapter 45.** There can **NEVER** be **LIBERTY** as long as the state controls judges.

You may think this extreme, but people cannot file charges against any public official. Laws are only to prosecute citizens, the **Coinage Act of 1792 §19** actually declared that it would be a **DEATH PENALTY FOR ANY OFFICIAL WHO FRAUDULENTLY DEBASED THE PEOPLE'S MONEY.** For you see, they too looked at history and saw the same thing that I did. It was always, and without exception, is not the fault of the private sector, but the public sector who always spent more than they had and that led to debasement. I dare say, there is no public official in Washington today who legally could not be hung!

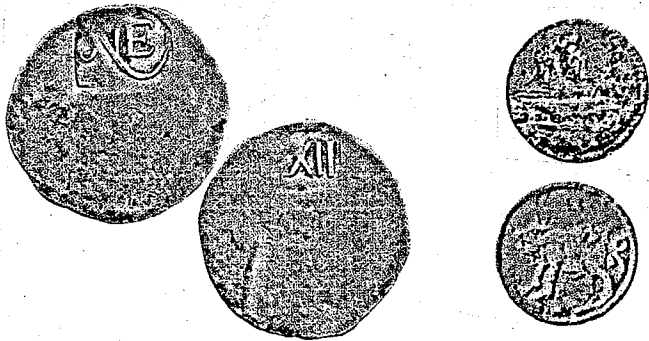
Exordium to the US Dollar



Spanish Pillar (Milled) Dollar

The real coin of the Americas was none other than the Spanish Milled Dollars as they were known. In formal terms, they were 8 reales and the shortage of precious metals in the Americas often led to these coins being cut up like a pie to make small change. They were cut into 8 "bits" and thus the term that is still known today, two bits of 12½ cents each equaled 25 cents.

The Spanish dollars were minted in very large quantities in South America between 1732 and 1772. On September 2nd, 1776, they were proposed to be the new monetary value for the United States by Thomas Jefferson.



NE Shilling

Threepence



Shilling, Large Planchet (1667-1674)

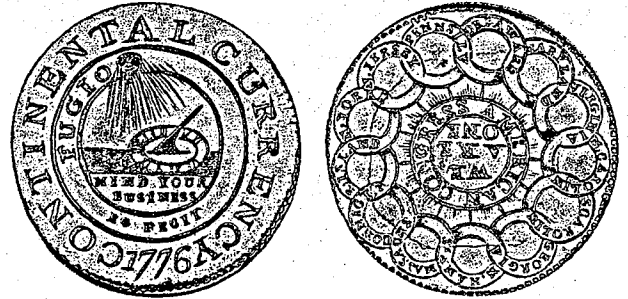


Threepence

Sixpence

Private colonial coinage was minted in a host of different areas. Illustrated here is a threepence of **Sommer Islands**, showing a hog, that today is known as the Bermuda Islands. **John Hull** was commissioned by Massachusetts Bay Colony to mint coinage. He began with the "NE" issues. He then made subsequent issues with a willow tree, oak tree, and then a pine tree. This was the first act of defying the English King for he made it illegal to create coinage that would compete with his own that bore his image. These first coins of independence were minted between 1652 and 1682.

Coinage began to spring up throughout the colonies. We find issues even by **Lord Baltimore** in Maryland. The issues are just too numerous to go into here for the purpose of this writing.



CONTINENTAL CURRENCY

There were individual state issues, but as the States joined together to fight the Revolution, the Continental Congress was then created to fund the war. The bulk of the money was paper currency. They needed credit and effectively the paper currency was more of an IOU. Pictured above, is a **Continental Dollar** that is very rare. They are known to have also been minted in **Pewter and Brass** in addition to **Silver**, which is the rarest. No doubt, the inflation of the time prevented any massive issue of silver coinage. The most common pieces are those struck in **Pewter**, a white metal that at least tries to create the image of silver much in the same way we have nickel coins pretending to be the old silver coinage.

* Warning: there are numerous copies of these coins that were sold as souvenirs.

It was the **Coinage Act of 1792** that officially created the monetary system. It is here where §19 proscribes death to the politicians who debase the currency. There would be no one standing in Washington if this was enforced.



THE FIRST SILVER DOLLAR OF US 1794

The first coins minted in 1792 were the **Half Cent** in 1792, followed by the **One Cent** in 1793. The first actual dollar did not come until 1794, pictured above. What is clear, is the animosity toward the English was so strong, the American's did not wish to even have the same currency base - the pound. The term "**dollar**" was German in origin "**thaler**" that was the first European silver coin. It was originally designed to be a substitute for the gold **florin** that first appeared in 1484 in Tyrol.

Despite the belief in the **Gold Standard** somehow rules, it was really a bi-metal system whereas silver was the primary means of exchange and these European **thalers** were the most popular means of exchange during the 16th Century. Most European countries began to adopt the same standard by minting coins that were of equal value to the **thaler**. In Netherlands, this new denomination became known as **riksdaalder**, Poland called it the **talar**, the Danish used **rigsdaler**, Italians called them **tallero**, Russians knew them as **jefimok** and the French called them by the name **jocandale**. Most of these names are a derivative of the largest European silver mine at **Joachimsthal** that was located in the Bohemian Erzgebirge.

It was the discovery of silver in South America and the conquest of that region that caused Spain to rise to the new financial power in Europe. Although the Spanish named their coins 8 reals, it became known as the Spanish dollar much as all photocopies are often still call a Xerox. Therefore, with such animosity toward Britain, it became a natural transition to create the American dollar. Its weight was 26.96 grams gross with a composition of .8924 silver with .1076 copper.. The size was 39-40mm in diameter. The total number of coins that were struck that first year were 1,758. The next year in 1795, the total silver dollars that were struck amounted to 160,295.



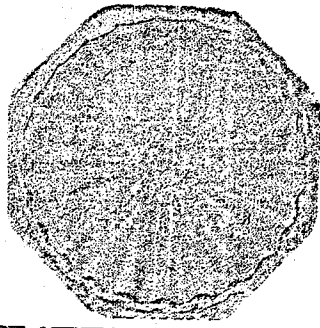
The United States suspended minting of silver dollars between 1804 and 1837. It was 1840 when silver dollars resumed with the new design known as seated liberty pictured just above. However, there was the vast California Gold Rush of 1849. This greatly expanded the gold supply, but not silver



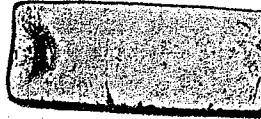
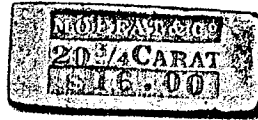
THE FIRST \$20 GOLD COIN 33.436 gm of .900 fine gold .100 copper with the pure gold net weight .9675 ounce

The massive influx of gold from California drove the silver prices to a premium to the point that the silver dollars by the early part of 1853, were worth more in silver than the face value of the coin being \$1. There was generally on average about 70,000 silver dollars minted annually between 1840 and 1850 prior to the Civil War. The most minted was 184,618 in 1842 and just 7,500 in 1850. The rise in silver prices immediately after the 1849 Gold Rush, led to only 1,300 silver dollars minted in 1851 and 1,100 in 1852. The speculative bubble in silver broke in 1853 and the total amount of coins minted later that year jumped to 46,110. It was 1853 that the US bought Gila River Valley from Mexico in what was called the **Gadsden Purchase**.

It was the discovery of the **Comstock Silver Lode** in Nevada during 1859 that again is reflected within the money supply, for now silver dollars started pouring out of the US Mint. In 1859, they minted 635,700 silver dollars, with 732,600 minted in 1860. The outbreak of the Civil War led to the sharp decline in minting silver dollars with 77,500 in 1861, 11,540 in 1862, 27,200 in 1863, 30,700 in 1864, and 46,500 in 1865. The money supply was hardly a consistent flow.



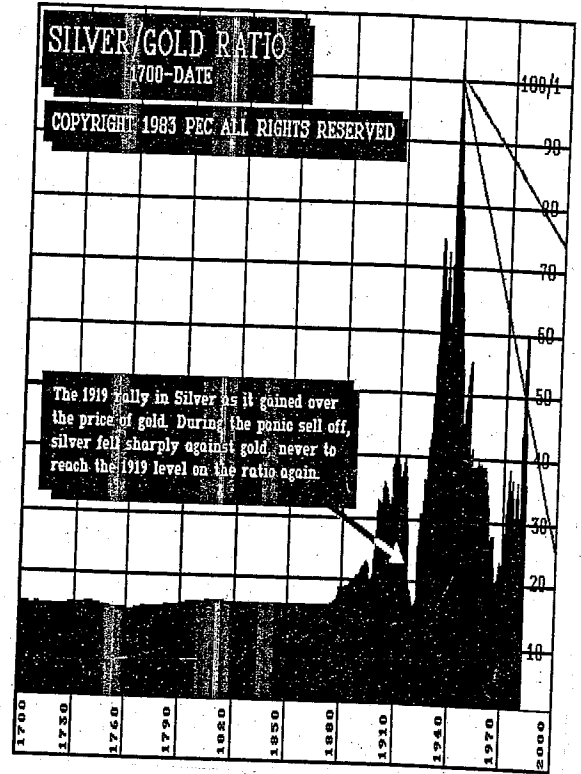
\$50 GOLD COINS WERE MINTED BOTH
PRIVATELY IN CALIFORNIA & BY US ASSAY OFFICE



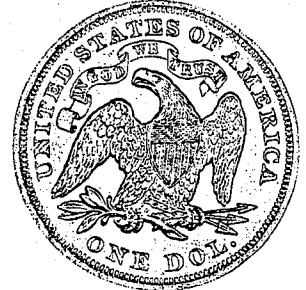
PRIVATE CALIFORNIA GOLD COINS &
INGOTS WERE MINTED
DUE TO THE LACK OF COINAGE
IN CIRCULATION IN CALIFORNIA THEN

The history of the Gold Standard has been plagued by this timing between when gold has been discovered relative to the economic needs and even relative to silver. This was a massive cycle within itself that has caused the gold silver ratio to swing wildly in time. We can see from the chart presented here, the theory of claiming that silver should be 16:1 relative to gold and thus it is dirt cheap, has been the oldest sales pitch that is comparable to - Hey would you like to buy the Brooklyn Bridge?

There has always been a disparity in the Silver to Gold Ratio because of the discovery of the two metals. Right now, we have even a decline in gold production in South Africa that did not exist in 1980. This is what has often defeated the best effort to create a Gold Standard.



With Motto IN GOD WE TRUST (1866-1873)



The Phrase "IN GOD WE TRUST" that has led to many derivatives such as-"ALL OTHERS PAY CASH"-was added to the coinage after the end of the Civil War in 1866. Silver once more began to pour out of the US Mint. While in 1866 there were only 48,900 coins struck, by 1871 there were almost 1.1 million produced and in 1872 there was now slightly more than 1.1 million. Inflation was really kicking in and we had the Gold Panic of 1869 that forced the Congress to adopt the "Hard Money" view where they passed the Public Credit Act that promised to repay all the government debts from the war in GOLD.

It was 1873 when another massive silver discovery was made, the Great Bonanza Silver Lode in Nevada. The view quickly turned to one of massive inflation creating the Panic of 1873 that led to the closing of the NY Stock Exchange for 10 days.

The Panic of 1873 they called the great "Crime of '73" because with this new massive silver discovery, people wanted to cash in and the Government, fearing that now just massive amounts of silver would be pouring into the economy, demonetized silver. The farmers and the miners blamed the Panic of 1873 on the demonetization of silver. This led to the rise of the Silver Democrats and created a false hope that by flooding the economy with silver, prosperity would then return.

**THE TWO-TIER MONETARY SYSTEM IS
NOW BORN IN 1873**



UNITED STATES SILVER

THE TRADE DOLLARS

While Europe was on a Gold Standard, both China and Mexico were on a SILVER Standard. In order to do trade in Asia, the United States minted a new silver coin they called the Trade Doolar, that was then issued between 1873 and 1885. The weight is actually listed on the coins 480 Grains of 900 Fine silver, which is 27.22 grams or .7874 ounces of pure silver. The coins were minted with a diameter of 38.1mm.

This clearly established a TWO TIER MONETARY SYSTEM, the first in American history. These Trade Dollars were not then recognized for domestic circulation, and traded primarily based upon the actual metal content.

The political outrages created by the farmers and the miners, misled many into assuming that the Panic of 1873 was created entirely by the demonetization of silver. This, of course, was just absurd. But this political turmoil was responsible for now creating a 26 year depression from 1873 with the low in 1899.

The coincidence of demonetizing silver in 1873 correlating with the Panic of 1873, led to the political division that would not stop. Finally, by 1878, the nation was in fact starting to drift toward Marxism due to this distorted view that indeed the rich were insisting upon a Gold Standard.

In 1878, Women's Suffrage Amendment was introduced in Congress on January 10th, by Senator A. A. Sargent. We also have the rise of a new political party in Toledo, Ohio known as the Greenback-Labor Party. However, it was the Bland-Allison Act that resumed the coinage of silver for domestic circulation.

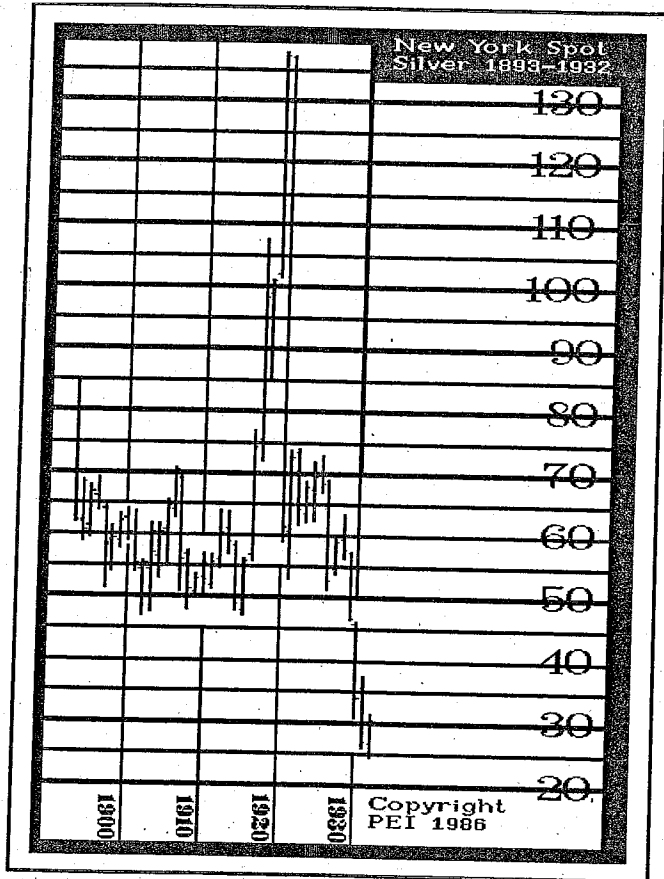


**THE MORGAN SILVER DOLLAR
(1878 - 1921)**

The US Mint started to reissue silver dollars for domestic circulation in 1878 that have become popularly known as the "Morgan Dollars" named after their designer George T. Morgan. Where Trade Dollars were .7874 ounces of pure silver that were being minted for circulation outside the United States, the domestic Morgan Dollars were .77344 ounces of pure silver. This created clearly a TWO TIER MONETARY SYSTEM the same as South Africa use to have, the Financial Rand for international use and the RAND that was not convertible to foreign currency and used purely domestic.

A TWO TIER system allows domestic policy to be separate from international influence. However, there was a serious problem. The silver to gold ratio was thus set at 15.9884 ounces of silver to 1 ounce of gold. This now overvalued silver relative to gold for in Europe it was pegged at 16.5 to 1.

A half-ounce may not sound like much, but it was enough to create a very profitable foreign exchange trade. Take silver to the US and 16 ounces bought 1 ounce of gold. Go back to Europe, and you got 16.5 ounces of silver.



the blood contained poison. If you died, it was not the bleeding. It was because you were not bled soon enough. This was the reasoning of the **Silver Democrats** and it was Williams Jennings Bryan who made one of the most famous American speeches of all time against the **Gold Standard**. He made that speech as the candidate for President in the election of 1896 stating that the government should not crucify labor upon a "**Cross of Gold**." He argued for the full unlimited issue of silver coins.

It was also in 1896 when gold was now discovered in Alaska - the "**Klondike**" lode. The economic turmoil continued and the volatility was rising in huge waves that were creating panics regularly. Finally, in 1899 with interest rates hitting their highest level, nearly 200% on the NYSE, the battle between silver and gold had been settled. In 1900, "**Hard Money**" triumphed and the US returned to a single **Gold Standard**. In 1904 the United States suspended minting any silver dollars whatsoever.

The silver kept pouring out of Nevada. In 1878, 22.494 million silver dollars were minted. The next year, 27.559 million were minted. By 1881, this continued to rise and hit 27.927 million coins. This was a huge expansion of the money supply using silver.

In 1879, the US resumed gold payments for greenbacks. The supply of silver had seemed endless. In 1890, the Congress had enacted the **Sherman Purchase Act**. This was now dramatically increasing the supply of silver relative to gold and massive trading in this foreign exchange **Guaranteed Trade** undermined everything and no doubt prolonged the instability of the time. This was the beginning of a **Private Wave** that began in 1882.45 following the peak of the major **Public Wave** that was 1878.15.

The **Panic of 1893** struck and President Grover Cleveland stood upon and called the age of unsound finance. They repealed the **Sherman Purchase Act** on October 30th, 1893. The gold had poured out of the country and in 1894, the US Treasury issued two bond offerings of \$50 million to borrow gold. It was J.P. Morgan who stepped up in 1895 to do a bond issue to prevent bankruptcy for the United States Treasury.

Like some medieval doctor who believed bleeding the patient would save his life for

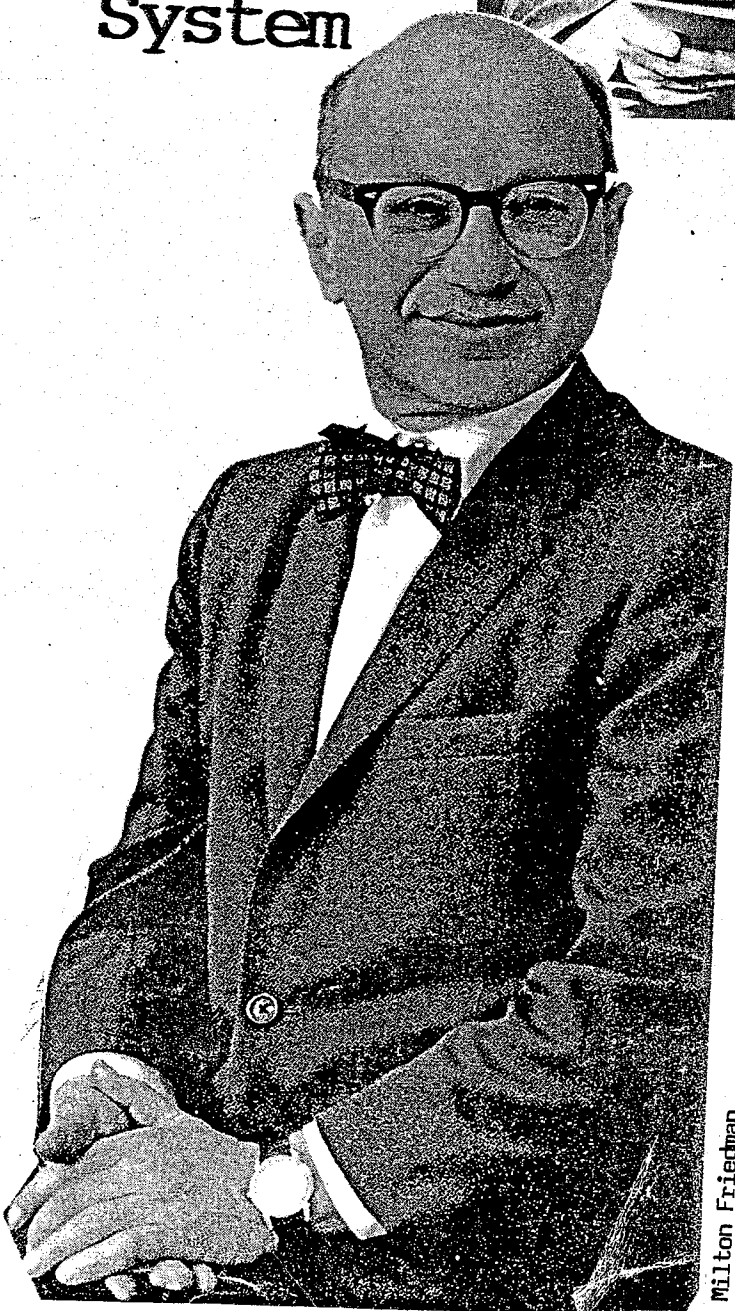
Under the **Pitman Act**, the amount of silver dollars was now being reduced. The government now melted down 270 million silver dollars. It was 1921 when well after the events of World War I and the great commodity crash of 1920, that silver dollars began to be minted once more. A new design was introduced known as the **Peace Dollar** symbolizing the hope that World War I had been in fact the war to end all wars.



1921 - 1935 PEACE SILVER DOLLAR

The entrance of **Franklin D. Roosevelt** and his confiscation of gold in 1934, also led to the result that silver dollars now also ceased to be minted. The dollar in coin form would never again appear in silver. Any issues that came much later in the 1970s, were base metals of copper and nickel. All silver coinage ended in 1964.

Creating the Floating Exchange Rate System



Milton Friedman

AUGUST 15th, 1971

The birth of the **Monetary System** that most people alive grew up with was August 15th, 1971. For the abandonment of the **Gold Standard** gave way to the **Floating Exchange Rate System**, and precious few realize what that change even set in motion.

I have stated before, I am no academic and I never aspired to compete with those who forged the field of economics. I was but a hands-on guy who loved trading and could smell the blood as well as the euphoria that fueled the bull markets. I had a historical depth built by curiosity to understand how things actually worked. My computer knowledge prepared me to create a tool that in fact revealed a hidden order. For whatever reason, I was there at that moment in time and filled a global role I did not realize I was doing.

I found it curious at first when well known people began to seek me out, not to be a client, but to talk about the clear evolution of the economy. There were many who made contact like **John Exter** but there was someone who impressed upon me that I was doing what he had only dreamed about. That was **Milton Friedman**. For you see, **Milton** had proposed a **Floating Exchange Rate System** back in 1953! This was one academic who had real wisdom and vision.

Milton envisioned a monetary system that would provide the real checks and balances so critical to maintaining LIBERTY. Russia built the Berlin Wall to keep people in, while they pretended it was to keep the capitalists out. That wall did more than keep people inside. It also imprisoned capital. It created a version of feudalism converting the entire citizenship into slaves of the state. There were no taxes for there was no personal wealth.

When I went behind the Berlin Wall in the late 1970s, I was forced to buy East German marks at 1:1 with the West German mark. Yet everywhere I went, when I tried to spend the East German marks even at a government hotel, I was told the price was West not East marks. When it was time to leave, I had the same East German marks in my pocket as when I started. I tried to walk through Checkpoint Charlie as it was known then, and there were several stations you had to pass through while walking on a raised wooden walkway between mine fields and gun turrets with machine-gun toting guards following your every movement. Not that much different from my present accommodations minus the mine field.

When I got to the last station, you had already been searched up and down, but now you had to empty your pockets and list all the money you had. There appeared the East German marks and a huge German woman who appeared in military garb screamed at the top of her lungs "marks" while pulling on some rope that set off an alarm. In came two guards with machine guns grabbing me by my arms and set out to take me back to the very beginning. They took me to a small building and confiscated the East German marks and pointed to a chair refusing to even speak.

I sat down and waited. I had assumed they were going to exchange the currency. There was no one else there. After an hour of staring at the only clerk in military garb, I got up and tried to communicate "give me my money and let me go." To my shock, he spoke English. He said he only confiscated and handed me a paper receipt instructing me if I wanted my money back I had to stay over night and go to the central bank the next morning. I asked him if I was free to go if I didn't want the money. He said of course. This was my taste of good old fashion Russian communism. It was still all about the money. As the years would pass, I came to see ALL governments were the same. It was always the money!

REAL KNOWLEDGE comes from experience. That is why the ancients developed schools that were an apprentice program. We can learn the basics from school, reading, math and language, as well as the laws of the real world in physics. Anything that is the knowledge not subject to human interpretation and human bias. Social science is all about self-interest. Adam Smith discovered the "Invisible Hand" and ever since man has been trying to formally manipulate that aspect without success.

The Gold Standard collapse in 1971 and there was no choice whatsoever from the self interest of politicians. To maintain that Gold Standard established at Bretton Woods, they would have had to publicly admit that they were idiots. They would have had to admit that fixing the dollar to gold at \$35 per ounce failed because they continued to print money without any regard to the ratio it had established. HOW STUPID CAN YOU BE?

The collapse of the Gold Standard was merely a modern version of DEBASEMENT for instead of reducing the precious metal content of coinage, they printed much more paper without limitation. This was the very SAME mistake carried out by the Romans, but instead of the coinage being debased, they debased the paper currency by increasing the supply without any restraint regarding the ratio to gold.

THE SILVER STANDARD

You will notice that Silver rose to the extreme high in 1920 of about \$1.35. It had crashed and burned going into 1932 falling to nearly 24¢ - a drop of 82.2%. This huge decline that did not conform to any such Fibonacci Sequence, was 13 years (8.6 x 1.5). While silver swung from 40:1 ratio to gold going into the pre-stages of World War I, it dropped to about 15.3:1 during the peak at \$1.35. However, the silver to gold ratio collapse with silver falling drastically to the point the ratio hit a bit more than 100:1 going into the beginning of World War II.

The US Government began to remint the silver dollars only in 1921 when the price crashed back to about 52¢. This was in large part to help the miners once again. You will also notice that they continued to mint silver dollars until 1935.

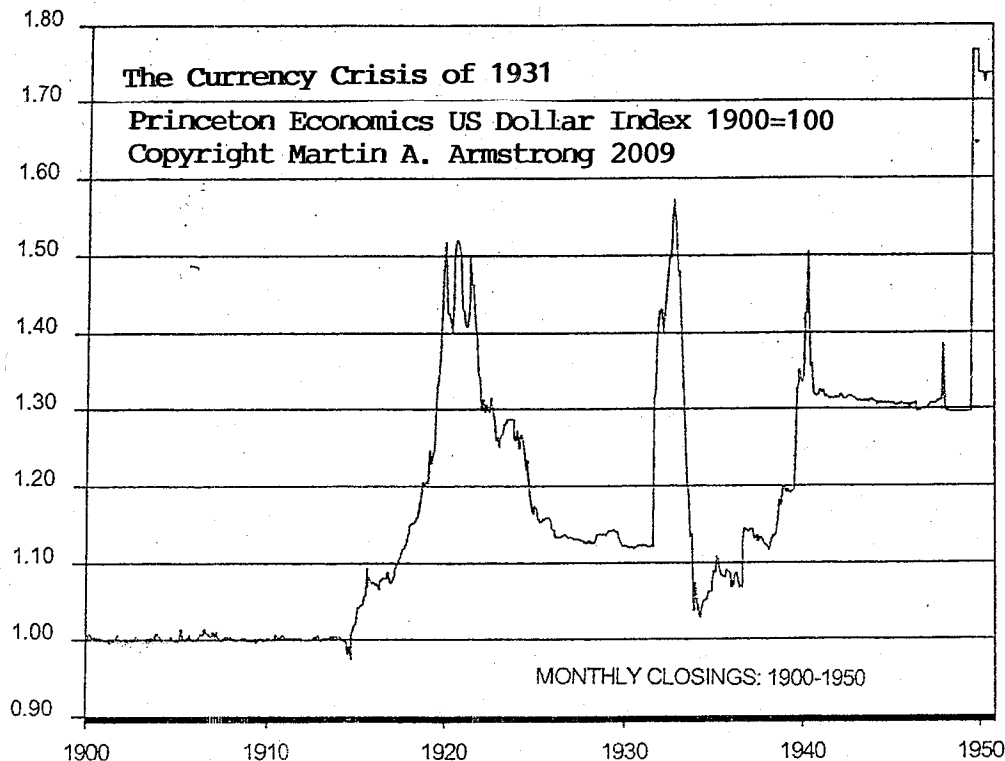
Franklin D. Roosevelt confiscated gold in 1934 and devalued the dollar by changing the ratio from \$20.67 per ounce of gold to \$35. You will notice that he stopped minting silver dollars in 1935 and insofar as the paper currency was concerned, he stopped the issue of paper currency greater than \$100. The last issue of \$500, \$1000, \$5000 and the \$10,000 bills was the series of 1934.

While the dollar was now the de facto world reserve currency due to the collapse of European debt in 1931, (see chart), by the end of World War II, the United States in fact reached the official gold reserve of 76% of the entire world. It was (1) the huge arms dealer, (2) the supplier of food, and (3) it became the safe port for capital when everyone else was blowing themselves up. In my opinion Oswald Spengler's famous book "The Decline of the West" was on point. I believe he correctly picked the high for Europe. He may not have envisioned how the concentration of capital migrates such as Babylon, Athens, Rome, Constantinople, and then the rise of France, Germany, Spain, with the shift to London and then eventually the United States. It is very clear, the arrogance of those in power never want to believe that their own actions lead always, and without exception, to their own political suicide.

The complete formalization of the gold standard took place in 1944 at Bretton Woods where they not merely established the ratio of dollars to gold at 35:1, but they also established the International Monetary Fund, World Bank, and the United Nations also came into existence.

The complete failure to create any hope of a PRACTICAL monetary system began to make itself known rather quickly. The politicians saw the new war was against communism. What they failed to comprehend, was that too was an impractical solution and it would clearly fall for the very same reason that the Gold Standard collapsed. BOTH systems attempted to alter the "Free Markets" and by law they sought to compel the economy and thus human nature to comply with their own designs.

Communism and Bretton Woods collapsed because they ignored reality. Communism for it displaced the "Invisible Hand" that had formed the economy allowing individuals to create innovations by bureaucrats who only responded to the will of government. The economic growth steadily collapsed. The Gold Standard collapse because there was also no check and balance against political spending to win elections that increased the supply of dollars irrespective of the supply of Gold.



Just as the economic growth in the new Communist world steadily declined, the same trend was effecting the West. The United States being the **Reserve Currency**, did not realize what that actually meant. It had the effect of **EXPORTING** domestic problems globally. In other words, what was happening was that the rise and fall of interest rates and the economy within the United States was impacting the rest of the world. This led to the common phrase at the time, "If the U.S. catches a cold, the rest of the world gets the flu!"

While **Joseph McCarthy (1908-1957)** was appointed to investigate communists within the ranks of the State Department in 1950, he made up allegations that were false and then embarked upon a personal attack against those in Hollywood and elsewhere. By January 2nd, 1953 the Senate issued a report stating that some of **McCarthy's** political activities had been in fact "motivated by self-interest" grabbing the headlines to further his political career. On December 2nd, 1954, **McCarthy** was formally at last condemned by the Senate in a special session regarding his investigation.

All of this hatred swirled in the air and led to the cold war. There was rising labor unrest and 5 congressman were even shot on the floor of the House of Representatives on March 1st, 1954 by representatives who claimed to be from the Puerto Rican Nationalists. The government reaction to the Communist threat was by far a major distraction from the steady underlying trend of **DEBASEMENT** by the increase in the supply of dollars. By 1953, the dollar had fallen to just 52¢ in purchasing power from where it stood in 1944 at **Bretton Woods**. This distraction was even evident in crazy laws where the state of Michigan criminally prosecuted a bookseller for selling the book **The Devil Rides Outside**, by John Howard Griffin, in 1957.

The United States was doing the very same thing that the Communists had done. They were attempting to criminally prosecute any one who dared to disagree with them. The **Freedom of Speech** meant nothing to those who believed that their own ideas could not be challenged by anyone. They were themselves committing treason going against everything that the American Revolution had fought against. This has always been how those in power respond to challenges to that power. The suppress it with sheer ruthlessness.

These distractions filled the heads of the people and the press, keeping them blind to the real danger beneath the surface, the steady undermining of the national wealth. Thus, the fate of Communism would be shared by the fate of the **Gold Standard**, for he who is in power, never sees himself as the cause of anything.

Within the first 13 years from **Bretton Woods** the purchasing power of the dollar had fallen by nearly 50%. By 1960, the rising levels of taxation were becoming excessive. The average American was now being taxed by 25% of total income combining federal and state taxation.

As taxation continued to rise with the top income tax bracket being over 90%, the Communist threat was still used to build government and distract the people from the undermining of the national wealth. It was on October 25th, 1962 that aerial photos of offensive missile bases in Cuba appeared. **Premier Khrushchev** was using this as a chess game for he offered to remove them if the US did the same in Turkey. On October 28th, 1962, an agreement was reached. The American blockade of Cuba ended on October 29th, 1962. On November 22nd, 1963, **President John F. Kennedy** was assassinated, and there were intended implications to involve Russia by showing **Lee Harvey Oswald** had traveled there previously.

However, it was **President Kennedy** who signed the bill on June 4th, 1963, that then ended the **Silver Standard** that had backed the small domestic denominations of currency. The "**Silver Certificates**" came to an end and now **ALL** paper currency was backed by **gold**.

The military then manufactured the whole incident that led to the **Gulf of Tonkin Resolution** on August 7th, 1964. But this was also the **ONLY** tax reduction that was seen as permanent, not a rebate. This tax reform dropped the income tax rates and led to a huge boom in the economy. Even the Dow Jones Industrials lunged upward to test the 1,000 level for the first time in 1966, followed by the sharp collapse that was focused in the mutual fund sector.

Silver was removed from the coinage with 1964 being the last year of mintage, with a minor exception for the half-dollar

that the silver content was reduced to about 40%, but even this now quickly disappeared and by 1970, there was no silver content at all.

The Consumer Price Index ("CPI") back then included real estate, that would be later removed after 1980. Under the more realistic CPI, it was running about 7.2% annually in 1970 thanks to the war and social spending. The Federal Reserve was operating under the brain-dead notion that they could reduce the inflation by raising interest rates. They had completely failed to realize that the biggest culprit was now government. Their policy of trying to force the private sector from now spending, had the effect of raising the cost of government because the increase in rates had **NO IMPACT UPON PUBLIC SPENDING POLICY!**

The Federal Reserve was operating under the insane idea that the culprit was **ONLY** the private sector. They raised interest rates and now on June 9th, 1970, the Prime Rate had reached a record high of 8.5%. Strikes by now continued. There was the dock strike at the Port of New York on February 14th, 1969, that ran for 57 days. Strikes continued up and down the Atlantic until April 2nd that year.

The entire period was one of true unrest for it was a coming of a new generation that was rejecting the fear policies that were used by people such as **McCarthy**. There were civil rights movements, and college movements against the war. There was even a major riot at Attica in New York that resulted in the deaths of 43 inmates and guards.

What must be understood the system was that in 1968 not only did the **Gold Standard** begin to crack with a **Two-Tier** monetary system whereas there was the "official fixed" price for **gold** among nations, and the "market" price for now **gold** began to trade in London. Yet it was 1970 in the traditional calm just before the storm, that **gold** fell **BELOW** the official price briefly.

As the economic chaos and political trend toward unrest merged, the pressure began to build. The Swiss and the French were now in fact taking their dollars and redeeming them for **gold**. This forced the dollar/gold ratio into crisis and Nixon realized there was not enough **gold** to redeem the outstanding supply of dollars. What began as a temporary bargaining chip gave birth to a complete new monetary system entirely.

Unlike the problems that faced the whole world in 1944 with Europe dead broke and on its hands & knees seeking charity, now the mismanagement of the monetary policy of the United States was self-evident behind the scenes. Yet the closing of the **gold window** (where dollars were exchanged for gold between nations), was not at any time accompanied with a global conference or the establishment of new institutions like the IMF or World Bank. This was just a bargaining chip that became permanent.

It was **ONLY** the product that one man seemed to ever envision, and that was none other than **Milton Friedman**. It was in 1953 where **Milton** was noticing that the CPI was rising and the supply of dollars was in fact increasing. He saw the future in that glimpse, perhaps not in every dimension, but his vision was by far well developed and quite progressive.

Milton envisioned that if the currency floated, then the "**free markets**" would provide the checks and balance. Indeed, when **Milton** first came to one of my lectures and approached me afterwards, what he had seen back in 1953, I was actually doing among the nations of the world. I was in the middle of this check and balance and was dealing in a the very capital flows from a front row seat.

The **Floating Exchange Rate System** did something that no one understood at the time but would turn your head trying to grasp the new economic dynamics.

In 1980, the national debt hit \$1 trillion dollars for the first time. Coincidentally that **Eurodollar Market** hit also \$1 trillion. Everyone judges others by themselves. Thus, Europe was extremely bearish on the United States expecting them to default. They then assumed that the United States would adopt a **TWO-TIER CURRENCY SYSTEM** whereas there was to be a domestic "green" dollar and new "blue" dollars printed for international use. This is how they believed the USA would get out of the mess. Throughout Europe at conferences I held from the north to the south in Europe, this became the **NUMBER ONE QUESTION ASKED!**

I was probably one of the few Americans who even understood the question. My studies of the world monetary systems had made me quite aware of such **Two-Tier** systems. South Africa had one in place at the time.

I would explain that the United States would **NEVER** adopt such a system for there was nobody in Washington who understand what the hell they were talking about. The result of this belief was that they envisioned that the "blue" dollars would be swapped for all the overseas deposits of dollars, **Eurodollars**, and thus they would be worth less than one of those traditional "green" dollars for domestic use.

While the US press never covered this story between 1980 and 1985, it was the most powerful rumor I had ever witnessed. The more people became convinced that the USA would default upon the rest of the world by creating a **two-tier monetary system**, the way to beat this was to do what? **SHIFT THE DOLLAR DEPOSITS FROM EURODOLLAR TO DOMESTIC DOLLAR.**

Between 1980 and 1985, despite the very bearish attitude in respect to the dollar, the migration of dollar deposits began a trend that was massive. The **Eurodollar** deposits were now dropping sharply. By 1985, they had fallen almost by 50%. The more the Europeans became bearish, the more they were buying dollars, but **DOMESTIC DOLLARS**. They were aided by the insane interest rates that Paul Volker created again trying to stop the inflation with no effect. This policy had become inviting an enemy over for a meal and intending to poison him using the wine, but you forgot that you too would be drinking the same wine. Yea! You got him. But you poisoned yourself as well.

Between the absurd interest rates that doubled the national debt in less than 5 yrs and this European bearishness that everyone wanted domestic dollar deposits, the dollar rise was unprecedented. It became the mind twisting trend that the more bearish the Europeans became, the more bullish they had driven the dollar upward. The British pound fell from about \$2.40 to \$1.03 while the Dmark fell to nearly 4:1 US\$ in 1985.

This trend illustrated that what **Milton** had envisioned as a natural check and true balance, was developing in spades. He was astonished to hear what was going on. But it was the government who then tried to fight the **free markets** by forming the G-5 in 1985 to manipulate the dollar once again. This is when I wrote to the White House trying to warn them what was taking place, but Mr. B. Sprinkle replied, Princeton Economics had

the only such model that was projecting a dramatic rise in global volatility if they attempted to manipulate the dollar down by 40%.

The **Floating Exchange Rate System** is the best system so far to date. It allows the **FREEDOM** for capital to move and thus what is taking place, the entire world has a means to vote in the confidence of the economic policies of any nation.

A **Fix Rate System** places the burden upon the government and if their policies are incorrect, then the risk is that the nation will be bankrupted by exchanging a currency that is overvalued.

In effect, fixing the dollar to gold was a disaster. It masked the problems of irresponsible fiscal management for decades and resulted in the collapse of the entire **Gold Standard** because no politician will ever admit he is wrong. You will not find the political powers revaluing gold each year admitting their mistakes along the way. It will **ALWAYS** explode in their face and risk economic near-death experiences and war.

A **Floating Exchange Rate** is far better from a practical perspective for politicians will always screw up the best of all worlds. This allows the freedom of capital to vote and the greatest danger we now face, is the attempts of socialists to reconstruct the Berlin Wall around capital. Instead of just once doing the right thing for the people and our posterity, they will **NEVER** do any such thing for it is their immediate self-interest that prevails. Not even will they think about their own family long-term.

This inability of nations to allow their currency to devalue in Europe, leaves only the rise in interest rates to try to attract capital to one nation over another. The **Floating Exchange Rate System** provides an inherent check and balance according to the same principles of **Adam Smith's** truly brilliant "**Invisible Hand**" by whenever the assets within one country become seriously undervalued, the foreign capital will at that moment rush in and rebalance the whole economy. Government cannot stimulate such movements artificially any more than the communists could manage the economy. This is the real check and balance!

In 1985, the dollar drove the British pound down to \$1.03. Not only was the airline tickets dirt cheap to an American, but so was everything else in town. Housing that to an American was extremely high back in 1980 at \$2.40 to the pound, was like a fire-sale at \$1.03. I was living in London and took great advantage of this currency swing. The Brits thought the American's were crazy. Housing in London was rising rapidly and the Brits thought they were selling at the top.

I had purchased in London a 328 Ferrari for about £30,000 when they sold in the US at \$50,000, so when the pound was about par, it was a great deal. I kept the car at the time in London (since the steering wheel was on the right not usable in the US), and I drove it around town for about 2 years. I loved that car. At the equivalent of \$30,000 they could not afford to sell them in the UK at that price. They raised the price to now 45,000 pounds. But the pound rose over that two years running back up to almost \$2. I sold the car for 40,000 pounds and expressing that back in dollars, I almost tripled my money on a used car!

This sharp decline in the pound had in fact sparked massive capital inflows. That took up the excess in assets and stimulated the economy irrespective of local interest rates or some social program. It was the perspective of "VALUE" that had driven the flow of capital that moves globally like water seeking the lowest level.

The boom in London was massive and it was widely distributed from land to business, and that created the injection that saved the entire economy. Contrary, the manipulated 40% decline in the dollar I tried to warn the White House about by creating the G-5, led to the S&L Crisis, a real estate decline where the Japanese bailed out selling all the trophies they had bought on the way up like Rockefeller Center. This produced the 1987 Crash as foreign capital that had once poured into the United States between 1980 and 1985, now was on a mass exit strategy.

The Japanese took all their marbles and went home. That caused a massive migration of capital from the US to Japan that culminated in the major Bubble Top for 1989. Because of my unique position specializing in foreign exchange globally, I had a front row seat to watch the world go nuts.

Currency swings provide a great incentive to move capital. The Bubble-Tops are caused by the CONCENTRATION OF CAPITAL in one sector (within a single economy) or in a nation. It is a byproduct of global inter-connections economically.

The Floating Exchange Rate System in fact will contribute to saving an economy such as it did in Britain in 1985. It will also curse an economy if the government goes crazy and starts to nationalize assets causing capital to no longer trust that government for there is no RULE OF LAW. That above all else, is the FIRST primary factor to be considered.

The Rule of Law can be very critical from two perspectives; (1) overregulation and the lack of an honest court system, and (2) the constant changing of law defeating the ability of capital to make long-term investments. For example, the courts cannot be trusted in New York to protect the capital of foreign investors since they will rule in favor of the US Government or local favored banks. This lack of the Rule of Law and the overregulation has left New York City no longer the financial capitol of the world. However, the constant rise and fall of tax rates creates an instability that detracts long-term investment in infrastructure for manufacturing. How can one spend a ton of money building a plant and then the economic model the entire operation was based on is now altered because the politicians change the tax code for the 14,000th time?

So the Floating Exchange Rate System has clearly introduced a natural mechanism where capital itself (Free Markets) can effectively vote on the domestic policies of any nation. Someday the government at the national level will figure out that they too must be competitive to attract capital and jobs for their people. The states have in fact realized that they must compete to get business to locate in one state rather than another.

Fixed Exchange Rate Systems even like the Euro, eliminates the ability of checks and balances through the currency. The real pressure is restricted to interest rates and that limits the ability to attract capital only through increasing the COST of that capital to its citizens. Hence, the likelihood of economic stimulation is diminished.

This **Quixotic Nostalgia** is not merely , foolishly impractical attributing things of great power and stability to a mere **Gold Standard**, but it is highly dangerous. This will only lead to the **Paradox of Solution** for trying to fix everything to an immovable system of value as took place at **Bretton Woods**, will set the stage for the next major near-death economic catastrophe.

We are like a horse dragging a cart down a muddy road. It gets stuck and we need a push. But what happens as we proceed, we get stuck in another ditch. I am **NOT** arguing that **Gold** is some barbaric relic. It still is a vital component in the global economy for the one element it provides, is a international bench mark against which everything else can be measured. It is the last vestige of our **FREEDOM** to remain independent of all the shenanigans carried out by government.

THE FALSE ECONOMIC STATISTICS

Because the **Floating Exchange Rate System** just evolved and was not planned, there was no global reassessment of what would have to be changed when the value of money was no longer a constant.

TRADE

One area that creates a huge problem politically is trade. Politicians want to blame everyone but themselves for the loss of jobs in the domestic market. The newspapers simply relay the statistics put out and the economists lack the resources to really do the job, and have yet to discover the underlying problems in how trade is calculated.

Because money was fixed at **Bretton Woods** in 1944, then it was easy to calculate trade by just monitoring the gross amount of money flowing back and forth. Nobody bothered to actually go down to the docks and count the number of products leaving and coming in. If you spent more, you must have bought more. It made perfect logic.

But the system was inherently flawed. First, it was not taking into account inflation in the price of goods, nor would it even account for a change in any currency that had also created inflation of a different nature as I explained with the Ferrari that had nothing to do with the actual rise in the price of production of the car.

Since there were clearly **TWO** separate sources for inflation, measuring trade by the movement of dollars created serious problems. In the last report, **Behind the Curtain - The Full Monty (January 1st, 2010)**, I provided a letter I wrote to Robert Rubin when he was Treasury Secretary. Again there was rising tension about the trade deficit with Japan. I wrote in an attempt to once more bring to light that governments did not have a clue as to what the hell they were doing. I pointed out that the trade deficit rose because the yen fell in value and **IF** Japan had actually increased their physical exports, then unemployment should have been declining instead of rising and the economic conditions in Japan were getting much worse. A 40% decline in the currency reflects a 40% rise in the trade deficit when one is measuring that only in currency.

These are things so obvious, I cannot believe I have been forced to argue this sort of nonsense for the last 25 years and there has been no change in government at all. Instead, the government reaction was to destroy Princeton Economics for they did not like the truth.

We spent the money on research that **NONE** of the big houses ever did because they saw it as purely an expense, where we saw it as our comparative advantage. We had staff not only collecting raw data worldwide, but analyzing it. One member of our staff was Isabel Ring. She was going through the economic statistics put out by the USA and checking the methods of calculation. She came to me one day and said she discovered a huge error in the calculation of GDP that was so blatant, it was not possible, so she thought. She wanted me to review her work for she felt she could not be right. The government was calculating **TOTAL PERSONAL INCOME** and then also adding the **TOTAL GOVERNMENT SPENDING**. They were effectively now counting all government employees twice. I personally called the BEA in Washington and informed them what we found and asked them to please point out where they had removed the double counting. I waited a week for the reply and called back. The response - **NO COMMENT**.

Everything is seriously flawed. We are arguing on trade disputes that may not even be valid. We desperately need an overhaul.

Facing Reality The Coming One

World Currency

MANY people get upset because of the biblical implications of a **One World Currency**. But if we were to return to the **Gold Standard**, that would be the same thing, minus the ability to control the supply. By a single new global currency, I do not in any way suggest that there should be a single new government nor that there should be an actual circulating currency. What is necessary is effectively a hybrid insofar as the **Dollar** is no longer the **Reserve Currency of the World**. What happens, the United States exports its domestic policies and the rest of the world suffers. If the US government in whatever incarnation it contrives, decides to go full blast down that **Marxist** road raising taxes and spending without restraint, it will effect the entire world. They no will vote on those policies by their interactions both with the **Dollar** and buying or selling its debt. Already, there is talk among the dealers that German debt is starting to be regarded as safer than American. This is just the start of unleashing economic chaos upon the entire global economy. We will see currencies demoralized and nations totally embarrassed. That is when the finger-pointing will begin and then the incriminations. Who will be responsible for destroying the future of so many?

The **ONLY** solution will be to create a new **One World Reserve Currency**. Something like the Euro, but all debt is issued in the local currency incorporating country risk that capital will judge. The **FLOATING** local currency against the **Reserve Currency** is the **Free Market** check & balance. This will allow devaluation rather than importing deflation because if external factors.

The United States has been reduced to a **Banana Republic with nuclear weapons**. It does not respect the laws of nations and assumes like a thug, because it has weapons, it can override the laws of other nations by kidnapping their citizens or dictating to countries like Switzerland. Yet the real amazing part, it is blind to its own total demise and it still delights in its own applause thinking it is smarter than the rest of the world. If there was a world war today, to whom would they sell bonds to pay for it? If the US was at war with China, could it say here, please buy these bonds so we can pay for our army to fight you? When you are an addicted debtor, you cannot see what you have done to your own future.

The US complains that China keeps its currency fixed and thus it believes it is undervalued. Europe believes that the dollar is undervalued. For you see, the US hopes that the dollar will decline just as it did when it created the G-5 back in 1985. It still expects that if the dollar declines, it will (1) make US goods cheaper and that will make more jobs, and (2) it will devalue the debt so that it will be repaid with cheaper dollars. These ideas are nice, but they will not create jobs nor will the US ever pay its debt off. So who the hell are we fooling? Ourselves?

The **Floating Exchange Rate System** is a means for the real forces of the Free Market to correct the absurdity of governments. We just need a neutral **Reserve Currency** that is a two-tier system providing international settlement, while retaining individual identity. The so called **PIIGS** in Europe can take down even Germany because it is the Euro that is the domestic currency for all. Allow the restoration of national currencies, and then the **PIIGS** can devalue instead of importing deflation because of the Euro. We need a new **Reserve Currency**.

Market Outlook

US Dollar Index

The ICE US DOLLAR INDEX closed below that initial monthly closing support at 79 and fell thereafter back to the 74 level. While it is very tempting to scream as loud as we can **SELL THE DOLLAR**, we must remain objective and above all else, void of any emotion.

Fundamentally, the USA is by far **NOT** the only nation facing a major debt crisis. All of the Western nations have followed **Marx** and thus believed they could borrow perpetually to spend today what they will never have tomorrow. Just as Communism crashed and burned, so will the same policies of socialism. The idea of providing a safety net is not really the problem. The crisis comes when there is borrowing to pay for such a program when government never repays its debts.

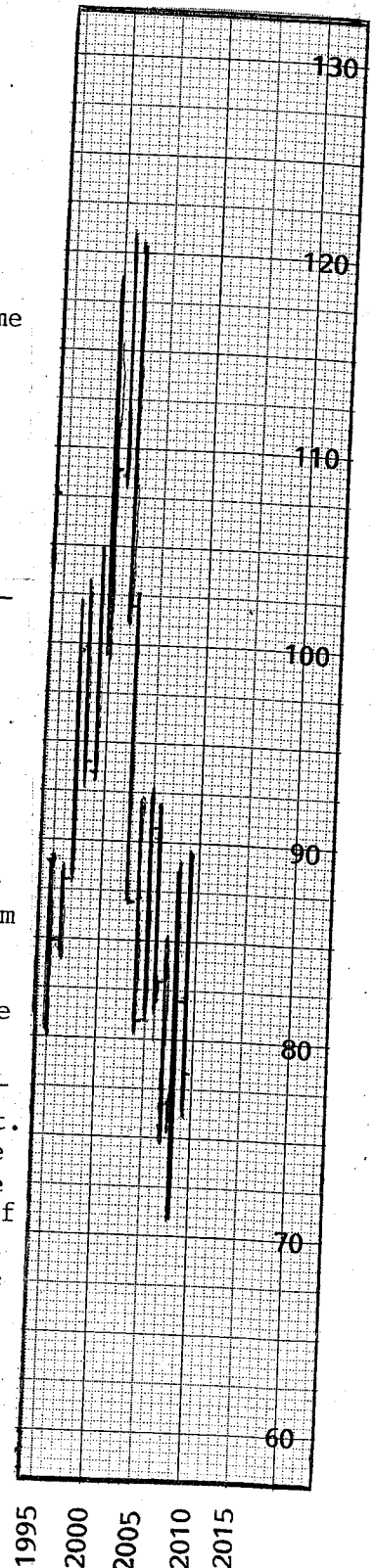
What we are really looking at is **TIMING** for when one currency goes, so will the rest. The **Currency Crisis of 1931** of which most socialists omitted from their accounts of the Great Depression, is the model for what will unfold even now. Capital will run from one currency to the next. **Herbert Hoover** wrote in his memoirs:

"During this new stage of the depression, the refugee gold and the foreign government reserve deposits were constantly driven by fear hither and yon over the world. We were to see currencies demoralized and go governments embarrassed as fear drove the gold from one country to another. In fact, there was a mass of gold and short-term credit which behaved like a loose cannon on the deck of the world in a tempest-tossed era."

While history does not repeat in the same identical manner, what does repeat is how people react. The market effects are different. In this case, the order of defaults will not be the same. Just as we saw a problem in Dubai sparked concern and review of other nations, that is the same pattern as what took place during the 1931 Crisis. Which nations will be those who are effected changes. But capital will still rush from one currency to the next when fear emerges about a debt crisis default.

Therefore, the one unifying aspect between then and now is **VOLATILITY**. This is what we are beginning to see as reflected in the annual chart to the right. If we look back at 1964, which was the start of the collapse of **Bretton Woods** being the last year that silver appeared in the coinage,

YEARLY
NEAREST FUTURES



adding 51.6 years brings us to 2015.75 just as 51.6 years from the start of the real estate boom in 1955 brought us to 2007.15. If we add 51.6 years to the 1933 high in the dollar just prior to the 1934 devaluation by Roosevelt, we come to 1985, the major high in the dollar where the British pound fell to \$1.03. This strongly implies that the end of this monetary system may take place in 2015.75.

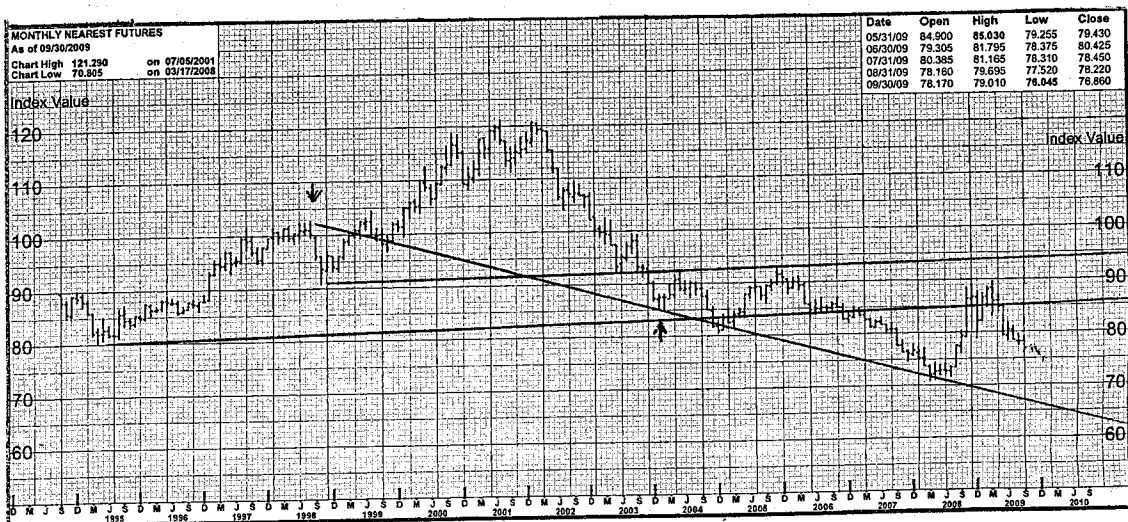
As we look ahead into 2010, the 90 level is starting to form the major overhead resistance. The monthly closing below 79 that I warned about in the May 2009 issue, took place and that has led to the sharp decline back under 80. The primary technical support will reside at the 65 down to the 62 level for the year.

A weekly closing below the 72 level will begin to warn that new lows will be possible. While the inability to get back above the 90 level will signal that this market remains under pressure, we must not lose sight of the fact that we will most likely see an extremely wild swing in these currencies between now and 2015. In other words, there is a high probability that what we will see a new low in the 60s, but we are likely to see a dramatic swing to the upside. This will be confusing, no doubt. However, it is a fact of who defaults or fears of default in different areas in a different sequence.

A monthly closing below the 73 level will also signal weakness and we may then find a low develop for the dollar in or around June 2011. The year end closing at 78.22, has projected initial support at 74.90 area in general with resistance forming at the 81 and 85.50 levels for 2010. A year-end closing for 2010 below 81 will signal that a low in 2011 is likely.

I cannot stress enough that we are going to see a pendulum move that is going to wipe out both sides. The volatility that those who attended the 1985 Global Conference on that we held in Princeton where VIDEO tapes use to be for sale but were confiscated by **Alan Cohen**, may still be out there in the world. Nevertheless, at that conference we were focusing on huge volatility projections that were stretching out for decades. All of those forecasts back then about volatility (of which I warned the White House in 1985 as well), are coming true in spades. What we will see now is going to be akin to what Hoover himself said they could not form a committee fast enough to figure out what was going on.

ICE - US DOLLAR INEX NEAREST FUTURES MONTHLY



Market Outlook

Market Outlook

Australian Dollar

Australia is one of the most beautiful places in the world from a natural perspective. It has always been a hidden jewel that could become a major economic center. Here too, the Anglo-Saxon based nations above all others, embraced Marx with open arms. This is still very much reflected in the laws and policies of the government.

From a natural resources perspective, this is one country that remains a vast land that has the potential for greatness. The A\$ has been very strong reaching the 97.70 level level on July 15th, 2008. This has been one currency that is still one that could surpass the dollar in many ways.

The A\$ has rallied from its 2001 low at 47.74 into the high in 2008 in July at 97.70. This has been a significant 7 year bull market. The 2008 closing shifted the upward momentum to neutral. The primary support still lies at 55, and only a monthly closing below this area will signal that the 2008 high will hold for a while.

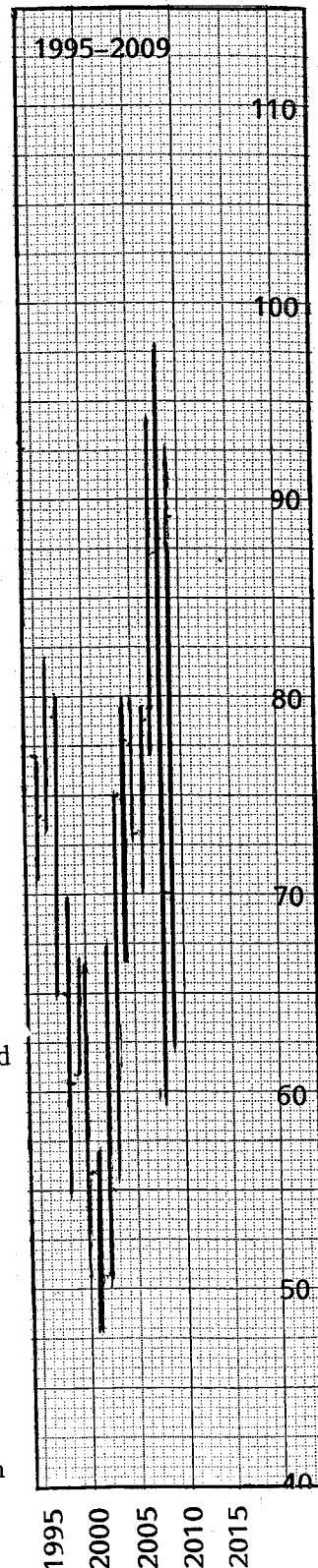
So far, the low established in the instant decline from the 2008 high took place in just 3 months and change - a Pi Cycle. This was very sharp, but also short lived. This gives some support to the fact that we may be dealing yet with just a reaction. Only a monthly closing beneath the 63.70 level will warn that a bear market is likely thereafter.

While volatility remains historically high for all the currencies, the A\$ has the benefit of being a natural resource producing nation that also is a huge plus for those looking at gold. Australian gold stocks will eventually develop the TWIN Bull Market whereas the gold will be rising with the A\$.

The initial support to watch lies at 80. We closed 2009 at 89.17 on the nearest futures and this was a strong come-back for year end. By far, this closing was certainly yielding no bear market indication.

The resistance for 2010 will form at 94 with support at 80 and 77, with long-term support down at 72. In fact, this level at 80 should be a good indicator of the tone of the market going into even 2011.

YEARLY
NEAREST FUTURES



Market Outlook

The year-end closing above 89 was a strong signal that the A\$ is still capable of new highs. This was actually the highest yearly closing since the April 2nd, 2001 low. If we see a monthly closing above the 2009 high of 97.70, then there is a real possibility that the A\$ could rally to reach the 110-120 level by 2011-2012.

Clearly, those who are use to hedging the A\$ on rallies, should start to be a bit more cautious this time. The price advance could turn out to be much stronger than many suspect. Although the decline from the 2008 high was big on a percentage basis, the Yearly sell signal would have been produced only on a year-end closing below 56. The mere closing above 80 for year-end, overcame the negative implications of 2008.

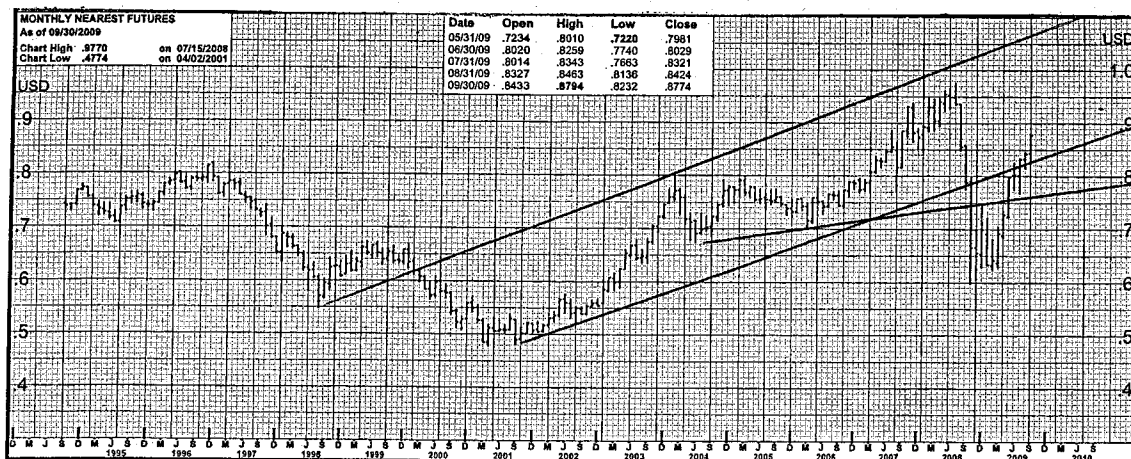
The initial technical resistance in 2010 will stand at the 105-110 scaling upward for the year between these two points. A real breakout will take place exceeding this technical resistance level on a monthly closing basis.

The cyclical targets seem to be July 2010. There appears to be a period thereafter going into as late as February of 2011. There should be a rather important change in trend in the summer of 2011. If this were a spike high, then there may be a 17 month decline thereafter. On the other hand, a low in the summer of 2011 around June, would suggest the precise opposite with a sharp rally into the following 17 month period. That could actually result if the A\$ rises to the 150 level.

If Australia would shed its Marxist policies and thinking, it would be capable of becoming the next Switzerland of old. But the union labor movement in Australia was very militant. There is a lot of work that needs to be done, but it is possible. If China indeed becomes the next global economy after the decline and fall of the United States, Australia will be in the perfect position to rise to the occasion.

The technical area of support in 2010 should scale upward from 80 to about 85 as we draw closer toward the end of the new year. The major support will be in the 75-77 area. ONLY a monthly closing below 77 will signal a retest of support before new highs unfold.

IMM AUSTRALIAN DOLLAR NEAREST FUTURES MONTHLY



Market Outlook

British Pound

Britain has got to shed its **Marxist** views and as soon as it does, it could come back as a truly major leader among nations. But, doing that is going to be easier said than done. It's the debt that is starting to kill one of my favorite spots in the world. I wish Britain would listen before its too late.

The **Pound** fell and established its low on January 23rd, 2009. This was a perfect 13 month panic sell-off (8.6x1.5) and since reaching that low at \$1.3492 against the dollar, it has made a rally back reaching \$1.7043 in August.

Despite this sharp rally, no buy signals were generated on the monthly level. To have suggested that we had a major low in place, we needed to see an annual closing above \$1.7150, which was not accomplished with closing 2009 at \$1.6146. Therefore, the rally did not suggest that the bear market is over.

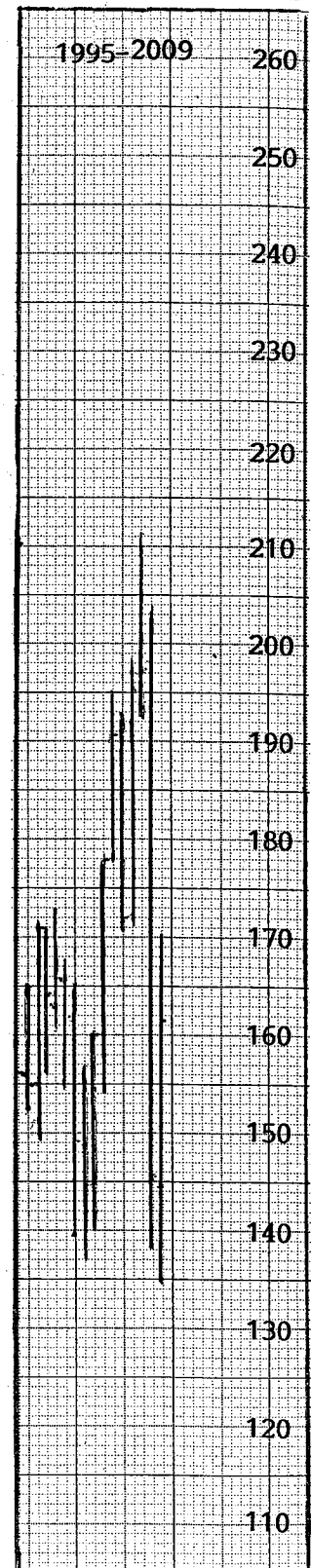
The major annual support still lies at the \$1.40 level. A year-end closing below this level would signal a retest of the 1985 low at \$1.03. The one thing Britain has going for it is indeed their own currency. So, if the currency swings to an extreme low, Britain will be on sale once more and the flow of foreign capital into that economy from elsewhere, will save the day.

When we look ahead into **2010**, the resistance is forming at the \$1.70-1.72 level. Staying below this will keep the pressure on the **pound**. The big long-term resistance stands at the \$1.92-1.93 zone. It will require a year-end closing above \$1.7150 level just to signal the bear market is over.

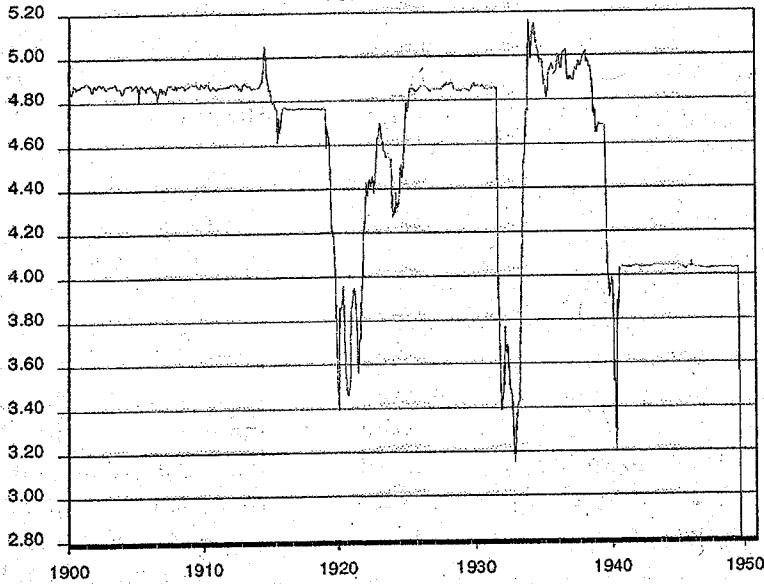
The support looking into **2010** will lie at the \$1.4755 level. A monthly closing beneath this zone will signal we are likely to make new lows under that of \$1.3492. Initial support lies at the key level at \$1.56. Therefore, the neutral trading range for the year will be \$1.71.50 - 1.5600.

If we take 1920 where the **Pound** made its first major low against the dollar, add 13 years and we come to 1933, the peak in the dollar before the Roosevelt devaluation. During the mid 1800s the **Pound** had been \$7.50. It fell to \$4.80 by the turn of the century, rallied just above \$5 before World War I on an initial flight to quality, then fell

YEARLY
NEAREST FUTURES



British Pound 1900-1950
MONTHLY CLOSINGS



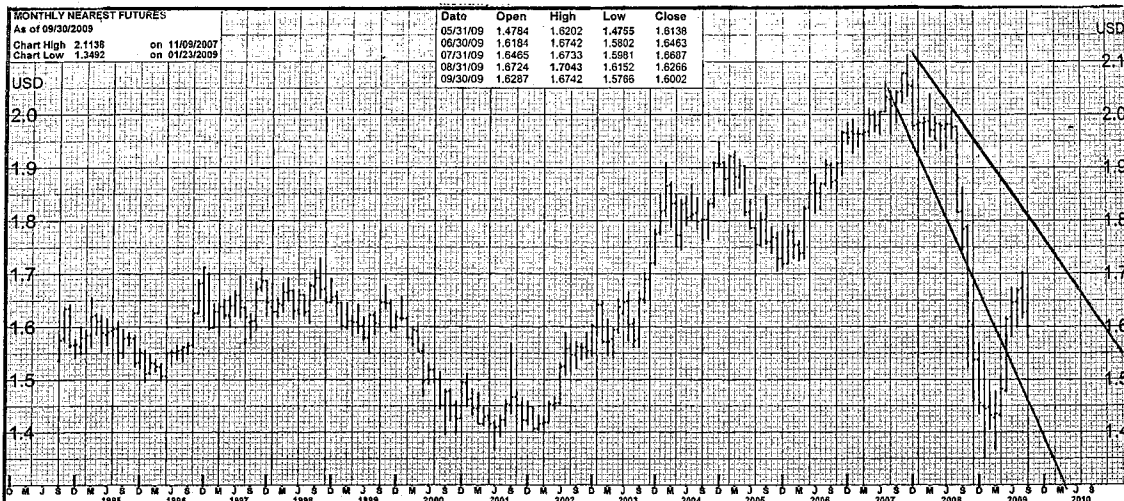
to \$3.40 at the END of the War. The Pound had managed to recover back to \$4.86 level, but it once more collapsed in the Currency Crisis of '31, and bottomed at the \$3.18 level by 1933 rising sharply to \$5.12 with the Roosevelt devaluation. But that was unsustainable and while the floor was at the \$4.80 level, as the prospects for World War II began to appear, the Pound began to decline once more. With the outbreak of war, it fell to \$3.20.

While Britain as a matter of pride has always wanted to keep the very highest value of all the currencies, this strategy has tended to make it quite expensive for capital to migrate to Britain. After Bretton Woods where the British tried to peg the pound at \$4, it broke in 1949 falling to \$2.80. It declined again to \$2.40 where it was trading going into 1980 just before the major decline to \$1.03. I recall doing a FNN TV Show (CNBC fore-runner) with another analyst who was a friend of mine Walter Bressert. I warned that the pound would test par in about 3 years, and to say the least, a lot of people thought that was impossible. But the computer was right.

From a technical analysis perspective, the 1985 low took place on the bottom of the Channel that was defined by the 1940 and 1949 lows. That had projected to about \$1.02 for 1985. A continuation of that Channel reaches about 10¢ for 2011, so it is no longer relevant. The bottom of the previous Channel connecting the 1920 and 1933 lows, rests at about \$1.62. Given the close for 2009 at \$1.6146, we can see we are in weak territory once more. Clearly, if the \$1.56 level gives way on a monthly closing, we should see a test of critical support.

The real critical support begins at \$1.4755 and a monthly close beneath this area will signal a possible drop into 2011 where support begins at \$1.27. Years of socialism has resulted in this devaluation.

IMM BRITISH POUND MONTHLY



Market Outlook

Market Outlook

Canadian Dollar

The **Canadian Dollar** reached a high above the par level testing 110.43 on the nearest futures against the US dollar. The decline has been on an intraday basis from the high of November 8th, 2007 into the March low for 2009, a total of 16 months. From the highest monthly closing, it is true this was almost 17.2 months. But not quite. This type of low formation is not a spike, and thus it is not of a normal pattern that lends great confidence that it will hold.

Nevertheless, the year-end closing for 2009 at 95.62 was relatively strong, suggesting that there is inherent support that may be overlooked.

When we look into the year ahead of 2010, we see the initial underlying support at 87.40 area followed by 84.50. The primary major support will lie at the 75.40 level, which will drop to the 71-70 level for 2010. The broader long-term bull market support lies at 69.

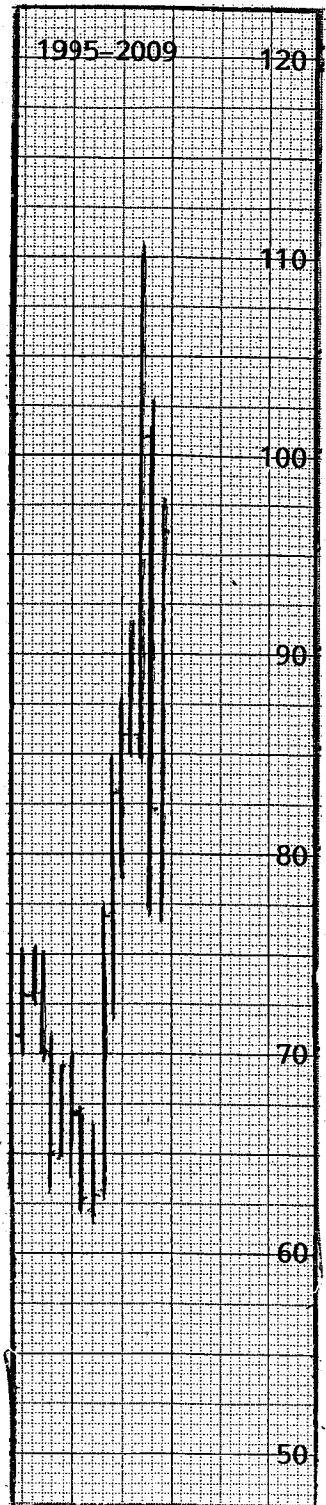
The volatility looking into 2015 appears to also be quite high. This warns that even here we can see some wild swings in both directions before this starts to calm down.

The critical technical resistance that must be overcome in order to see a retest of the 2007 high, requires a monthly closing on a **SUSTAINED** basis (meaning 2 months in a row) above par 100 before one would suggest that there will be new highs before lows.

The Canadian dollar was trading in the mid 90 level to just above par back in 1934. The real decline manifested with the post-World War II **Marxism** that led to accumulating national debts.

The technical resistance will be standing at the **Uptrend Line** connecting the lows of 2003 and 2007. This will provide critical resistance to watch in 2010. It rises from just below the 100 level reaching about 105 by year-end 2010. We must see a monthly closing above this level on a sustained basis to suggest that the **C\$** will breakout to the upside. Otherwise, it may now lag behind the **A\$** switching roles for the next leg up in this currency cycle.

YEARLY
NEAREST FUTURES



1995
2000
2005
2010
2015

Market Outlook

The primary support for the C\$ should it fail to overcome the resistance that is building above, rests in the low 70 level. Yet the initial monthly support lies at 83.67. A monthly closing below this area will point to new lows.

The C\$ rallied into October 15th, 2009 reaching 97.94 on the March contract. It was unable to get back above the Uptrend Line constructed between 2003 and 2007 lows on the monthly chart (see below). This is not a good sign and combined with the flat-line low formation, leaves this currency vulnerable to breach the lows of 2008-2009.

With the key support in 2010 at 84.50 on a yearly basis, we can see that a monthly closing beneath 83.67 will suggest that a retest of the 2002 low is entirely possible. This would be linked to fears of debt in Canada. SO it is wise to pay attention to those economic issues developing in this nation.

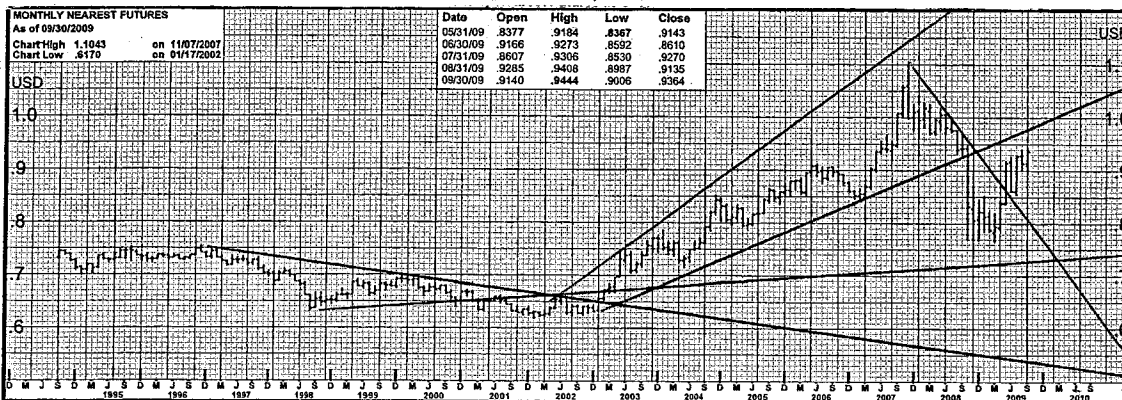
The first critical area to watch in 2010 will also be the 91.70 level. This is purely a pivot point that will be an indication as to the ongoing strength. A monthly closing below this area will start to warn that the C\$ is losing the upward momentum.

From a timing perspective, we may see a minor turning point form in March 2010, with the opposite event going into May/June, reversing that trend into November 2010. There is also a potential turning point form in September 2010 from which the opposite trend thereafter into June/July 2011 seems likely with perhaps a highly volatile move into the fall of 2011 perhaps extending into January 2012.

These are tentative, for I am waiting for some long-term data to make its way here. It did not arrive in time for this issue. Given the thousands of readers in Canada, I will do my best to get this updated as soon as possible.

Canada's greatest strength is its easy access to the US markets, whereas its greatest weakness is being lumped together with the USA should there be a economic flight.

IMM CANADIAN DOLLAR NEAREST FUTURES MONTHLY



THE EURO

The Euro is far from out of the woods. We have serious problems in this currency from on one front what everyone calls the "PIIGS" to the problem that the single currency itself is limiting the options to address the economic crisis.

The problems are also enhanced from the point that there are mountains of loans to Eastern Europe that is going to keep the pressure on from a debt crisis perspective.

Creating a single currency had some advantage but mostly this was also seen as an ego thing to compete against the United States. I warned that there were inherent problems that the United States had that were masked over by Roosevelt. This idea of ~~one-size-fits-all~~ does not work, but we will now have to let things run their course. The single Euro eliminates any of the problems being dealt with by devaluing the currency on a country by country basis. This could help Britain for once its debt is sorted out, it will be much more flexible than Continental Europe.

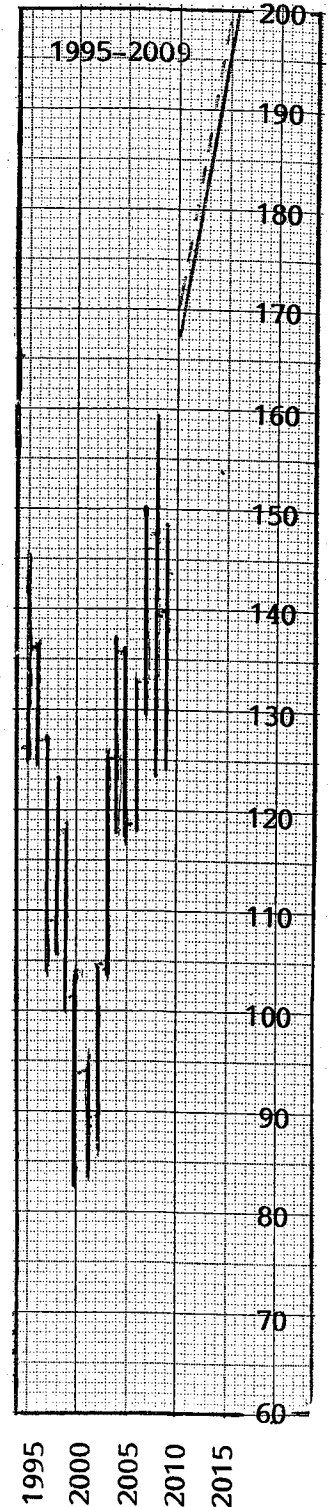
On a monthly chart, we do not have a spike isolated high, but a double top between April and July 2008. The yearly chart (right), gives us a isolated high.

The highest annual closing remains that of 2007. The closing for 2009 was at 143.34 on the nearest futures, This was a strong neutral close that has not overcome anything on our long-term perspective.

Looking at 2010, there is overhead resistance at 146 and 150. The underlying support should now begin at the 136 level followed by 129. Breaking the 129 area, will warn that a retest of the first support at 124-123 will develop.

The long-term support lies at the 117 area. This is followed by 103-105. A yearly closing below 125 will signal serious trouble in the next year implying that the debt crisis is going to get much worse.

YEARLY
NEAREST FUTURES



From a technical perspective on the monthly level (see below), the EURO looks still in a potential bull market, The double top formation warns that we could still see a spike panic high that means we most likely face a serious pendulum swing in this currency.

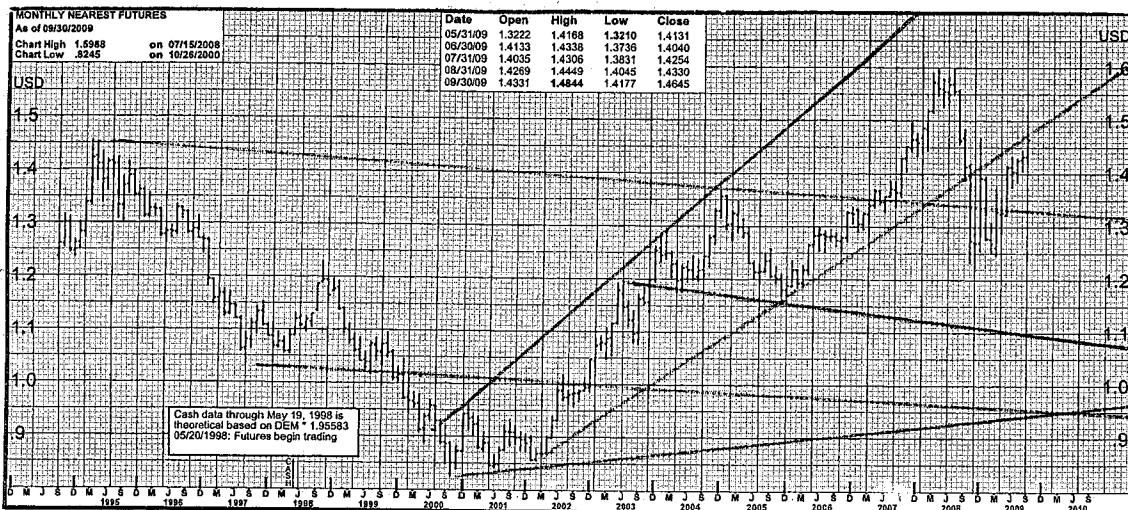
ONLY A YEARLY CLOSING BELOW 117 would suggest that the major high is in place. We did accomplished a yearly buy signal in 2006 when we closed above 128. But we still have the major yearly buy signal at 146.20 that has not been exceeded on a closing basis. We did exceed it intraday both in 2007 and 2008, but we closed below this critical area each time. The closing for 2009 was also at 143 and so once more we have avoided this buy signal. This provides the broadest neutral trading range as 146-117.

Technically, we can see the top of the broad channel lies just above 130 and the bottom at 95. We need to hold above this channel to sustain the upward momentum. A failure to do so will raise the threat of testing the primary monthly support at 121. A monthly close below 121, will point to a test of the Break-Line (2003-2005) down at the 107-110 level.

The primary problem with the Euro, is that the US debt crisis could send this currency much higher forcing eventually its complete breakdown. A rising Euro will cut off exports and force deflation upon the PIIGS and that will cause political unrest. This strain caused by the diverse economies throughout the Euro, will be its undoing.

Therefore, A monthly closing above the 156 area in general, will signal a breakout to the upside is now likely. I have provided a projection line that show the potential for the Euro to reach at its extreme 195 by 2015. We must still be watchful that the economic that could drive this sort of extreme is debt. Keep in mind that it matters not what the governments try to do. We are in a crisis situation where common sense will prevail. There is no intention by any government to repay its debt. So why pretend and create a near-death economic crisis? We need reform or these sorts of swings could demoralize countries and lead straight into war.

IMM EURO NEAREST FUTURES MONTHLY



Market Outlook

Japanese Yen

While the LDP lost the election fulfilling our long-term forecast made back in 1999, there is still the risk that the massive debt in Japan is going to implode. As it stands, the risk that Japan will remain in a depression until 2015 is still quite strong. What we must realize about such trends, they result in capital returning home from the liquidation of overseas investments.

When the economy contracts, typically the concentration of capital causes the currency to rise. This has the effect of causing the price of exports to also rise adding pressure to the economic implosion. If becomes a cycle that feeds upon itself.

This is why the Japanese yen rose going into 1995. The decline in the yen that lasted into the fall of 1998 when it was reversed by the collapse of **Long-Term Capital Management**. This derivative crisis that began with the collapse of the IMF loans for Russia, set off a wave of massive liquidation. The problem that inflicted Japan, was that the **Yen Carry Trade** (borrowing yen and investing overseas capturing significantly higher rates of interest). The major speculators in Russia were borrowing yen to make the maximum differential possible.

When Russia collapsed, they needed cash. They suddenly began liquidating cross-trades and anything else they could to raise cash. This caused the huge collapse in the yen when it bounced prices off of our cash **Yearly Bullish Reversal** at the time that stood at 147 (68 futures).

The decline between 1995 and 1998 conformed to about a **Pi Cycle** of 3.14 years. The high on the yen back in 1995 came on April 19th. From the low in 1998 that took place on August 11th, the **Long-Term Capital Management** crisis had the effect of indeed reducing the outflow of cash from Japan in the **Yen Carry Trade**. Consequently, that event set in motion a reversal in trend that signalled the **yen** should move back to retest the 1995 high.

Despite the political change, there still seems to be an inherent economic depression that has not yet been resolved. Japan's future, remain clouded.

YEARLY
NEAREST FUTURES



The technical perspective of the Yen on a monthly level is still in a position that we may yet see new highs above the 1995 level on the cash (79) or 126.25 on the futures. The broadly constructed channel on the monthly chart (see below) is built from the uptrend line between 1998 and 2002 with a parallel off the 2000 high.

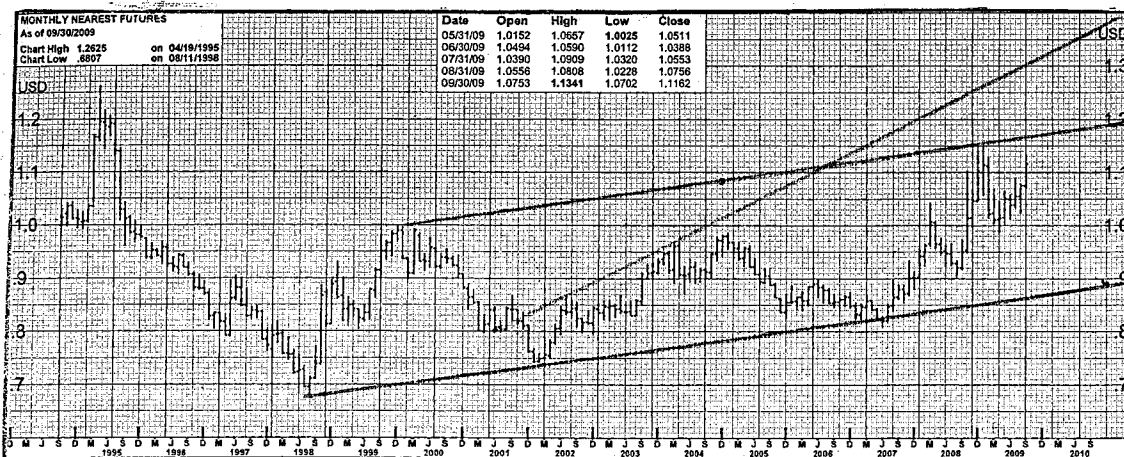
We can see that the rally into 2009 tested the top of this channel once again. A monthly closing above the 115 level will signal that a breakout to the upside is likely. What we must respect is that the debt in Japan is also monumental and it is simply not going to be resolved in a good way. Nevertheless, the yen is vulnerable to a serious pendulum move where we soar to new highs and then crash and burn. The politicians are not about to stop the borrowing and will drive the world into a economic near-death experience risking serious potential for war.

Only a monthly closing below 92 will signal that the yen is going to retest the 1998 low. Even a monthly closing below 95 will signal that the yen is in trouble. Keep in mind that Japan's debt is massive and the economy is highly dependent upon importing energy and raw materials. This is the vulnerable underbelly of Japan.

The potential rise in the yen following a monthly closing above 115, would not be that far above the 1995 high. The major breakout line constructed either side of the 2002 low, stands in the 130 level (74 cash). This appears to be the maximum target are for the yen. This would reflect a capital contraction, and then there would be a rush of capital fleeing on the prospect of default and or devaluation.

The yearly timing on the currency appears to be pointing to 2011 as the big turning point. There appears to be a strong likelihood of this could prove to be the major high, and that would thereafter point to a sharp decline into 2015 completing the end of the economic depression for Japan.

IMM JAPANESE YEN NEAREST FUTURES MONTHLY



Market Outlook

Market Outlook

Swiss Franc

The Swiss will one day rejoice that they stayed out of the Euro. But they will regret ever shaking hands with the United States. The Swiss are starting to find out that when you shake hands with Uncle Sam, you better count your finger. The United States will never honor its own laws, no less international law. It acts no different than a two-bit thug with a gun who sees this gives him the power and the right to demand whatever he wants. The Swiss ought to start considering closing shop in the United States and go back to being a safe port in the middle of a storm.

The Swiss did not default during the 1931 Currency Crisis. They did suspend payment for a brief moment, but they did not walk away from their obligations. The Swiss have the potential to still be that safe port if they realize the world is going to hell in a hand-basket.

2009 produced the highest closing for the Swiss franc leaving this currency in a very strong position, although the intraday high is still that of 2008.

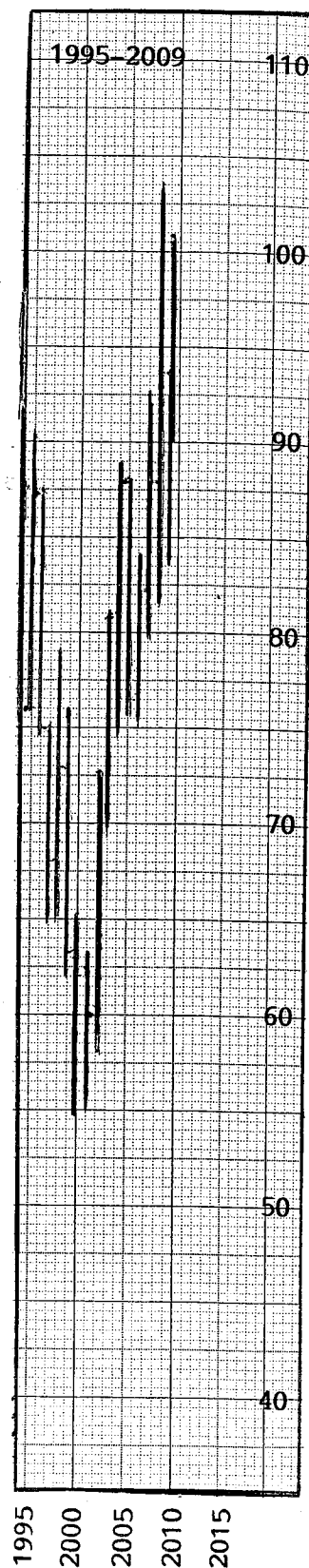
Looking into 2010, the support lies at 92, 88, 79, and 75. This currency still has the potential to exceed 120 if not 130 going into 2011. We could see the intraday high even extend into 2012.

The initial technical resistance will stand at the 115 level for 2010-2011. We need to see a monthly closing above 99 to signal sustainable strength is starting to unfold.

It is interesting that the decline from the 2008 high was almost 8.6 months. This is not a typical cycle that reflects a change in trend. This is more of a knee-jerk reaction.

Despite all the yelling, the Swiss need to get their act together at tell the US where to get off. It appears that this country may yet be a safe port for capital. They need to realize that times like these, call for drastic measures and the United States is self-destructing. It is reducing itself to the status of a banana republic with nuclear weapons. The Swiss were born of resistance. It is time to remember that heritage.

YEARLY
NEAREST FUTURES



Market Outlook

When we look at the Swiss franc from the monthly level, we see that the **DOWNTREND LINE** of 1995-1996 was exceeded in 2004 and after there was a high made in early 2005, the franc moved back to then retest this interesting support. It bounced off it, and that was the technical buy signal that pointed to ne highs. Indeed, the rally thereafter finally reached its high lt 103 on March 17th, 2008.

The **Projection Line/Breakout Line** constructed from either side of the 2000 low, shows that there is a very sharo upward potential in this currency that no doubt reflects the Debt Crisis brewing in the entire world. This shows at the extreme, this currency can go completely nuts on the upside and may reflect both the potential for economic stability in the middle of a debt crisis, as well as the neutrality in War that the Swiss are famous for.

Clearly, a monthly closing back above the par level (100), will signal that new highs are likely. Only a monthly closing below 78 would hint that the high is in place. We did bounce off of the par level on November 27th, at 100.91. However, the year closed for 2009 at 96.69, which was quite strong.

The initial monthly closing support lies at 90.80. Remaining above this area on a monthly closing basis will be quite positive short-term. Therefore, the next real move should be defined by the breajout from 100-90 trading range.

Here we see that a change in the short-term trend in perhaps due in January 2010. to early February.. The opposite trend could then develop going into Noverment 2010, with a reversal again into June/July 2011. Again, keep in mind that the yearly cyclical view shows the very earliest for a major high in 2011. If we see a low at that time, then the prospects will be for the final high to come into play around 2015.75.

IMM SWISS FRANC NEAREST FUTURES MONTHLY

