

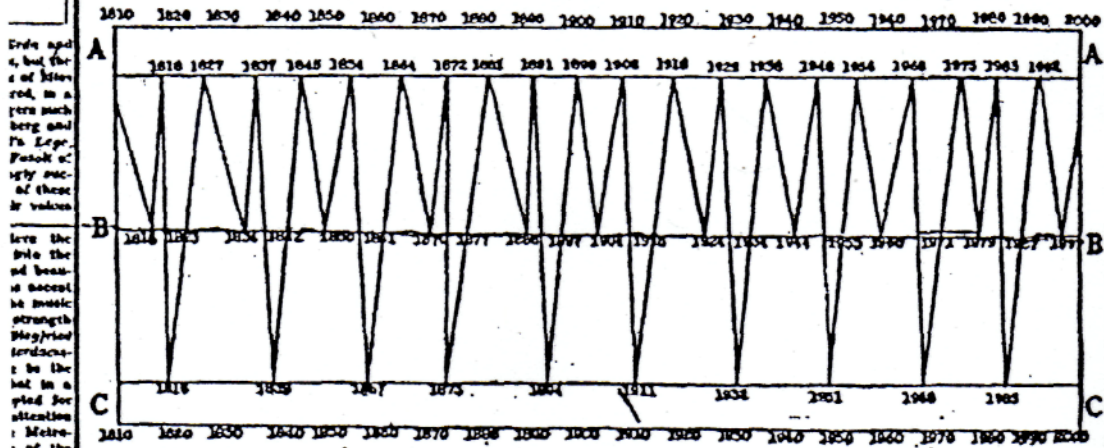
Armstrong Economics TM

Cycles & Pattern Projections Two Very Different types of Analysis.

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

ALL STREET JOURNAL THURSDAY MORNING FEBRUARY 2, 1932

The Forecast Of An Earlier Generation



A—Years of Great Prosperity and High Prices. Years to Sell South and Values of its Stock
B—Years of Hard Times and Low Prices. Years to Buy
C—Years in which Panics have occurred and War Breaks Out.

The above chart was sent to The Wall Street Journal by Edward Rogers of Detroit. Mr. Rogers states that it was found in an old book in Philadelphia in 1892. The original drawing was much discolored. The date was of a pattern that indicated it was at least 40 years old.

The author of the chart is unidentified and the circumstances led Mr. Rogers to believe that possibly the chart was made during the Civil War or before.

It is submitted to The Wall Street Journal subscribers for what it may be worth.

Newspaper-Specials
Condensed Items of Financial Interest From
American Newspapers

Current Earnings Reports
Published in two issues daily summary of earnings reported by various companies, giving the net income after Federal taxes, income after provisions for the Federal Reserve and one of the most important items. When published in London before the publication of any other country. It is based on New York Stock Exchange the best material in print in pamphlets after some of company.

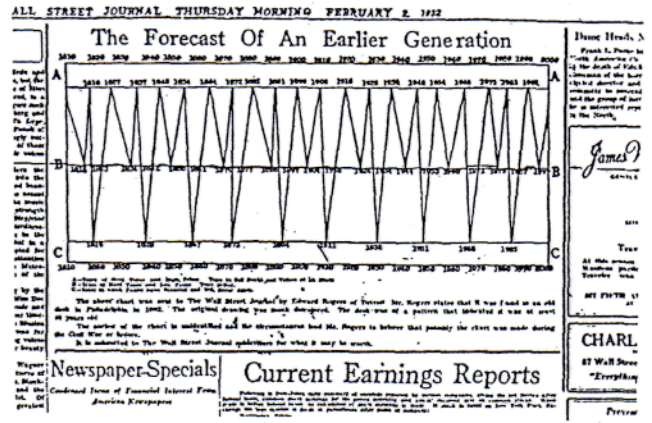
Dance Heads?
Frank L. Dume...
North American Co...
Chairman of the...
Director and...
responsible in...
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CHARL
67 Wall Street
"Everything"

Present

Cycles & Pattern Projections Two Very Different types of Analysis.



By: Martin A. Armstrong

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

Many people have written and asked interesting questions about cycles. Everything from why they exist to are they subject to change? Some have asked: Does this mean that the future is predetermined? This is a very deep subject. I am preparing a book I have entitled the "Geometry of Time" that goes into the core nature of how these cycles in fact move through time and space and why.

I have also been asked if I would make a comment on the famous Wall Street Journal publication of February 2, 1932 where a chart was published showing cyclical patterns 1810 to 2000. Since this was clearly published in 1932, it can safely silence the skeptics as to hindsight.

The Wall Street Journal stated that the chart was given to them by a Mr. Edward Rogers of Detroit who stated it was found in an old desk in Philadelphia in 1902. It was being offered to their readers for what it might be worth.

It is hard to say when cycle theory had really begun to take off. But it is very clear that in modern times, it surely had begun during the 1800s. Yet we cannot allow

ourselves to get confused between pattern projections and real cyclical projections. This Famous Wall Street Journal chart of 1932 is not really a cycle, per se. It is a chart projecting a pattern of highs and lows that falls closer into the same type of category as technical analysis and even Elliot Wave. The core similarity of all three is it is based upon "patterns" and not cyclical events of coordination, contagion, and correlation.

That by no means takes away from any of these pattern recognition slices of the complex world we live in. It is like you go to diner with a person you eventually love. Your mind records everything taking place without you directing it to do so. Suddenly, 20 years later, you end up at the same place and remember that night. You may access that same memory from a song, smell, or taste that may have been unique. The point is, we can access the same memory different ways. This is because our mind functions dynamically, not linearly.

There is a fundamental difference between cyclical analysis and pattern projection analysis. The former is only concerned with turning points irrespective of whether or not it is a high or a

low. It is an event driven analysis. When we look at **pattern projection analysis**, as I have distinguished it, we are specifically trying to "project" a high or a law.

The two different approaches lies in the core of what the **phenomenon** is we are actually working with. **Pattern projection analysis** is observing the result, with no concern of what causes the pattern. **Cycles** are inherent within the design structure of everything in the universe from the beat of the sun in 300 year cycles, volcanoes, the movement of planets, the rise and fall of the ocean, the precession of the equinoxes, the precession of the seasons, the beat of the heart of living creatures, to birth-life-death cycle of living organisms.

Because **cycles** exist within everything, there is far greater data available to get to a understanding of the dynamic structure of how they operate. **Cycles** are the medium through which all energy is transmitted be it light, radio waves, earthquakes, electric AC current, or wave action in the vast ocean.

If you stand in the ocean just ahead of where the waves start to break, you will feel the wave going to shore. You will then notice the wave is passing through the body of water it is not the water moving with the wave. You will lift up and down in the same spot. A cup floating the surface will rise and fall largely stationary. The energy is moving in a cyclical pattern through the water. There may be a current in the water moving at 90° to the energy waves, but that is again a separate distinctive force.

When we look at **pattern projection analysis** we are concerned about the outcome or result of the cyclical forces unfolding even if we do not understand cyclical events behind the scenes. **Cycles** are set in motion and are the real movers & shakers for it is this structural design that actually moves the energy from one place to the next. In society, we respond to events and then we react based upon our observations of the community. If everyone becomes scared and hoards their capital fearing a recession, then we too curtail and save out of sheer caution. This economically is energy that we can measure and project like the wave of energy passing through water. Instead of water, it is the community.

Perhaps I sparked more brain cells to fire based upon the letters regarding my discussion of Heisenberg's Uncertainty Principle. It may sound degrading, but for as much as we believe we are some sort of special creatures, both our individual and collective behavior is shockingly not much different than the core structure at the atomic level with a twist of self-awareness that needs us to in fact rewrite **Sir Isaac Newton's Laws of Motion**.

Newton's Laws are based upon objects that are unaware. So while an object may remain stationary until and external force hits it and then an equal and opposite reaction may unfold, if we are dealing with self-aware objects, we need to expand the laws. A cat sees a stationary bird. It tries to sneak up on the bird. If the bird hears a sound, it will flee without seeing the cat. Thus, when dealing with self-aware objects, the variables increase.

- (1) sound can spark flight
- (2) group behavior sparks flight
- (3) actual sight of the cat will cause the bird to take flight

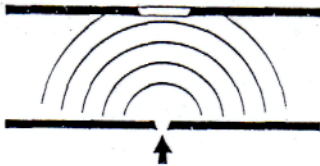
We are no different regardless how smart we think we are, it is the same design upon which all living things are constructed - self-preservation. Therefore, society is like a flock of birds. Perhaps one bird on the edge hears something and takes flight without even seeing a real threat. Others see him take to the air and join not knowing why. When the object is self-aware, motion can be caused by a perceived or actual real threat, or by a group behavior. We clearly need to expand the **Newtonian** Laws of motion when dealing with self-aware objects.

This is where **Heisenberg** comes in. We can predict statistically that a given percentage of a group will react, but we cannot predict which individuals within the group will do so. This leads us to delude ourself insofar as we confuse intelligence and free will with a understanding of group behavior.

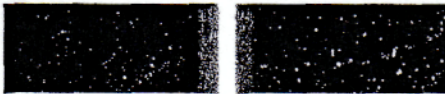
Cyclical Analysis is about projecting an event horizon, a turning point that is in fact caused by a convergence of trends coming together. Two waves 180° out of phase will cancel each other out. They may multiply in amplitude when in phase, or partially offset each other. It is the event and not the pattern being projected.

verse, insofar as why we could not predict which atom in a group would radiate. Yet, we have spent a lot of time even in the world of physics, but we have overlooked a basic assumption. How does energy move? I believe this simple question has not been answered leading to a lot of confusion.

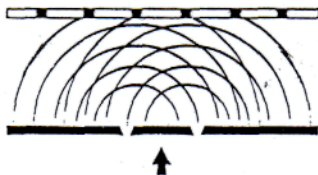
Quantum Theory has long provided a problem in that this world may be too complex for us to truly see. Nevertheless, the quest to reach a **Grand Unified Theory** where the laws of Classical and Quantum Mechanics combine all, remains a primary goal among physicists.



This theory of multiple universes emerged as an attempt to explain something really strange. The experiment that was set up was taking two walls one in front of the other. The first wall has a single vertical slit cut into it.

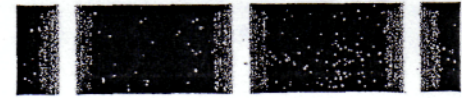


If we now shine a light into the slit, on the wall behind you will see a single vertical white line. What we get so far is not very strange. Just a simple vertical line of light as shown above.



The experiment gets more interesting when we cut two slits side-by-side. One would expect now two vertical white lines should appear. This is where complexity begins to show its true nature.

white light yet from only two slits. We are stepping into the world of complexity and the mind-bending results.



If we continue with this simple and plain experiment by now cutting four slits and shine the light again, what you expect does not happen. Instead of more, we now are getting less. The theory to explain this is that light travels in a wave form (cycle) and thus where the two waves meet and are in opposite phase, they cancel each other out. Hence, we have wave theory that sometimes a in-phase group of waves will join together making a larger wave reflection, and waves that are 180° out-of-phase will cancel each other out.

Then we add Einstein who argued that light was not a wave, but consisted of particles called "photons" and if that was true, then how do photons make such a stange pattern? It has been accepted that particles still will display a wave function. It is then assumed that particles can interfere with each other.

The next step in this experiment was to narrow the beam of light to such a small beam that only one photon would come out at a time. Detectors were then set up to record the results.



The pattern above shocked everyone again. The photons appeared to land only in specific places and not others. There could be no other photon creating the interference. What could it be that was creating a interference with the photon when only one photon was coming out at one time? You can see the emerging confusion finding complexity in simplicity.

This is where the theory of multiple universes emerges. It is now assumed that

because in cyclical wave theory two waves that are out-of-phase by 180° will cancel each other out, our knowledge of how all cycles function in waves transcends into the comprehension of how even individual photons must behave since they still move in a wave formation. This has produced the theory that there must be multiple universes.

The theory is based on the fact that only one photon is emerging at a time. Thus, there can be no interference with another photon. Hence, the theory goes that there must be multiple universes and at the same instant in time a person is shooting a photon at a wall in this universe, the same person existing in a parallel universe is doing the same thing. Thus, the interference is with that photon in the parallel universe.

This is certainly creative. However, the true answer may be a little more down to earth. This introduces us to the real world on cyclical complexity since what we are talking about is cycles through which is an ordered principle by which all things move be it light to the beat of our heart. Cyclical movement is the essence of life itself.

What is taking place in this simple experiment is that the photon is blinking in and out yielding the appearance that it is disappearing and this is what caused the multiple universe theory. Where does it go?

The blinking in and out of existence can be explained by either two possibilities that do not require multiple universes with many duplicates of ourselves doing the same thing at the same time.

- (1) The photon is behaving in its normal wave pattern, but we are able to see it only when it is at its point of maximum entropy found at the nadir and the zenith where it is changing course. It strikes the same spots because of its cyclical path through time and space. The answer lies in cyclical complexity and what we can see as blinking is the points of maximum energy that appears like a pendulum at its two most extreme points.

(2) The universe is composed of less than 10% of physical matter that we can see with over 70% being **Dark Energy** and the remainder **Dark Matter**. Thus any interference is with either the **Dark Matter** or **Dark Energy** that we are unable to yet detect close up.

The more practical resolution of this experiment is that we are only able to see visually the photo at its **turning points** in its cyclical path. By exploring the **cyclical** nature of social systems, we can see much clearer into all other areas of science.

What government hates the most, is that they cannot alter **cyclical turning points**. Politicians want to claim vote for them and they will outlaw recessions. They will throw in jail all those who caused it, and it will never happen again. This is like trying to outlaw death or pre-marital sex. You cannot outlaw even human vices, prostitution, drugs, drinking, or gambling. Governments that try are pissing in the wind because you are trying to alter human nature. All they do is drive such vices underground, make them more attractive, increase the prices to participate in such vices, and often cause countless deaths as did the **Prohibition Days**.

Cycles are no different. Like Joseph in the Bible who warned the pharaoh of a 7 year drought that was coming, he planned, lived with the cycle, and survived. We also had a 7 year drought that was the **Dust Bowl** and had made the **Great Depression** truly great, and altered the entire employment landscape. We ignore **cycles**, and are scared of them. But this is how **energy** itself moves through all such systems no different than a energy wave passes through water, but does not move the water.

It is the nadir and the zenith of all cycles that represent the maximum amount of energy that causes the turning point to unfold. It is not a particular high or low. That is a pattern that flows from the event horizon, it is not the source, nor the cause!

Therefore, we must understand that these are two separate forms of analysis. If we see a result, we must trace it to its source. When we do, we see that there are two separate and very different forms of analysis taking place. Some nations will bottom and others will peak with the same turning points on the **Economic Confidence Model**. We all do not boom and bust the same way. China is feeling the "result" it was not the "source" of the event.

The **Economic Confidence Model** has been often described as tracking the "hot money" for capital concentrates globally focusing upon a particular nation or region, then it targets further descending concentrating into a particular sector, then into the individual level. If capital did not indeed concentrate, it would be widely disbursed and this would kill innovation & progress which is why communism failed for it in fact recreated the feudal dark ages.

Capital for this cycle concentrated in the Financial sector. This is why we do not see a bubble top in the stocks nor even the commodities. The bubble was in the debt markets. It was the investment banks that blew-up the economy. If it were not for the strategically placed key people by Goldman Sachs, it too would have folded. Paulson refused to help Lehman or Bear eliminating competition and now Goldman has virtually a monopoly since Morgan-Stanley has pulled back realizing they flew too close to the sun. Goldman would not make the money as a bank, their profits are coming from mainly proprietary trading - not banking!

The United States has been infiltrated by the New York Investment Bank Club so profoundly, they are destroying democracy and ensuring the US will lose its status of the concentration of global capital. Their focus has been to dominate markets, manipulate what can be done, and to always make sure there is the perfect riskless trade.

The two banks that did not want to bail out Long-Term Capital when they all blew up on the Russian collapse were Bear and Lehman. They were the two who Paulson refused to help. Why? They were Goldman's real competition and did not go along with the "club" and they saw the bailout of Long-Term Capital Management as a indirect bailout of their creditors - AIG, Goldman etc.

The unprecedented rise in the banking profits post-1980 has created the spike high in this economic cycle. They only seek the perfect trade and engaged in the CDS market to pool mortgages together that no one would do in the old days after the Great Depression because of the contagion factor (correlation).

Once the Investment Banks crossed that line into the "big" market, mortgages, they created a time bomb that could undo the very structure of western civilization. They had as usual assumed that this was a riskless trade for the government would back up the debt just as the IMF was backing up the Russian bonds back in 1998 that went bust creating the Long-Term Capital Management collapse and contagion.

Because debt involves every aspect of society unlike commodities or stocks when they manipulate those markets, they put at risk the entire way of life. The day may come when Goldman is sitting there in their vaults with tears in their eyes while counting their billions and lamenting that a 3 min telephone call may \$1,000 and their war chest is really worthless.

Even the SEC and CFTC are safely in the palms of the "club" for to stop any upcoming competition, they pick up the phone, allege fraud, and the SEC and CFTC run in doing their dirty work. A foreign company CBL was working in restricted stock owned by directors of many public corporations. They started to take big money away as Swiss banks were offering to lend against the stock to enhance yields and thus the stock was not sold. CBL had interest up to \$6 billion. Hundreds of millions had left Merrill, and many others. **Charles Schwab** it is alleged was the source who called the SEC who rushed in, seized the corporation in Europe, and criminally charged directors. The fraud was claimed to have been \$13 million yet the SEC receiver received \$28 million in fees. And you think the SEC protects markets?

Drexel Burnham was destroyed on the real nonsense theory of inside trading for which the courts accepted and allowed to be prosecuted. Milken was guilty not of the insider trading that took place in the Depression where a director knew the company was bust so he sold his stock before announcing that info. Here, Guilianni's theory was two people know something, but a third does not. That third person is defrauded out the opportunity to make the same money. This is bullshit since that same so called inside info exists in commodities, debt currency or anything else worldwide. It's how the global economy functions. The NY "club" eliminated Drexel Burnham, a Philadelphia firm, who was not part of the "club" but a competitor. The NY "club" manipulates courts, justice, Fed, Treasury, and politics. They are the Dark Lords of finance, who will never be investigated.

It is unfortunate, by the SEC and CFTC are merely pawns, and seem to have no such intention of change the system. The degree of control of the "club" into government is preventing reform and is dooming our future.

From here on, you must now begin to see that cycles are distinct from pattern projection analysis. The future is likely to be unprecedented inflation instigated on the advise of the "club" who profit by selling all the debt. The self-interest of politicians & the "club" prevent avoidance.

The most likely events that we will see is no doubt the risk of confidence in the government collapsing resulting in the broad rise in interest rates, that the likes of Goldman will cheer. Like Scruce counting of Goldman will cheer. Already, the world is starting to disbelieve the economic statistics put out by the United States. Nothing is real and this is contributing to the steady decline in Public Confidence. Since the "club" makes a living from selling the Gov't debt, they do nothing to help the nation, only hasten its demise to fill their pockets along the way.

Gold continues to consolidate below the \$1,000 level. This is a critical sign that confidence is swinging away from the government. Just as China is concerned for the dollar, they speak the truth unlike the bullshit we hear from Washington. They are speaking with regard to their self-interest and so is Washington. China is concerned about its holdings of dollars and has been reducing their maturity. The Washington crowd is also speaking out of their self-interest insofar as they do not want to face reality and keep telling everyone - **don't worry, be happy!**

It appears gold is building a base from which a rally up to \$2,500-\$3,000 area is very likely. There is even a possible rise up to the \$5,000 level. But that is the most extreme projection. This is suggesting that confidence in the dollar is declining. This is not the classic "inflation" nonsense, but the collapse in currency value consequence.

The Dow Jones Industrials are still poised to make new record highs with the Dow testing the 20,000 level. However, you must understand that the **pattern** of how you get there is usually the pendulum. The more you swing to the bottom, the higher the rise to the zenith.

The patterns can often be measured in terms of energy swings in both directions. It is like traveling to the moon. NASA used the gravity of the moon to propel the ship back home. The more you swing in one direction **short-term** with rapid speed, the higher you will see the opposite motion. It is a mere question of calculating the **energy** within the system. That I will save the formula for the "**Geometry of Time**" where it can be there presented in a more authoritative manner.

The **cyclical analysis** provides us with the event horizon. **Pattern projection analysis** is focused upon what that event will produce.

For example, 31.4 months is a key time where there is an event horizon from a major bubble top. This has traditionally been the low. The economy may decline well beyond that even for as much as 23 years with oscillations of course giving many false indications the depression is over. However, the underlying lack of public confidence leads to inherent mistrust of government so like a bird that just hears a sound, society takes flight in the opposite direction.

The ideal pattern is the rally into the September period and if the Dow cannot get a monthly closing back above 11,000, then we will turn down into that 31.4 month event horizon one more time. Thereafter, it appears that the new highs will unfold after that point in time and we will see the collapse of public confidence that could be major.

Is there hope of avoiding a meltdown? I would like to say yes. But the depth of sheer corruption is beyond belief. There is no hope of getting the "club" out of the pockets of government. Democrat or Republican makes no difference. We are ruled by a sheer profession political class that is as indistinguishable from the executive and judicial branch as anyone can imagine.

Democracy died a long-term ago. Our politicians are sitting on the otherside of the table, and we are always the meal. In Australia about 20 years ago, the Labour Government got in the "luxury" tax on the slogan the rich would pay for their **French Wines, Fur coats, Farraris**. When the tax was passed, it included all electrical products. There will never be hope from government as long as there is no independant management of the state.