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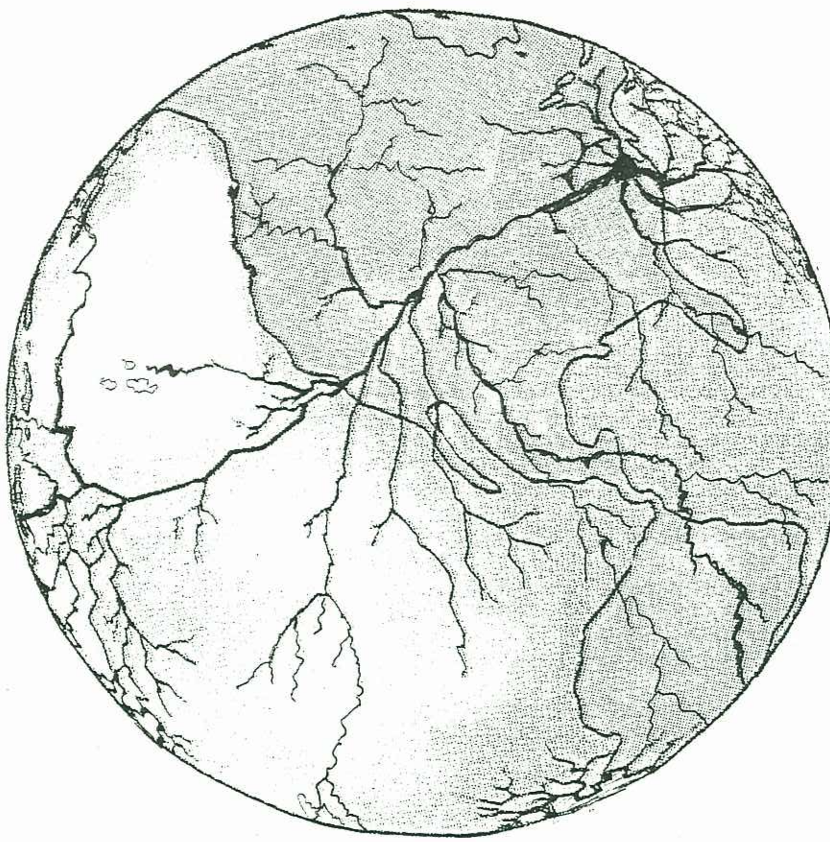
The Coming One World Currency



How Do we do it?

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

Comments Welcome: ArmstrongEconomics@GMail.COM (Internationally)
write directly: Martin A. Armstrong 12518-050/ FCI Fort Dix CAMP/ P.O. Box 2000 / Fort Dix, NJ 08640
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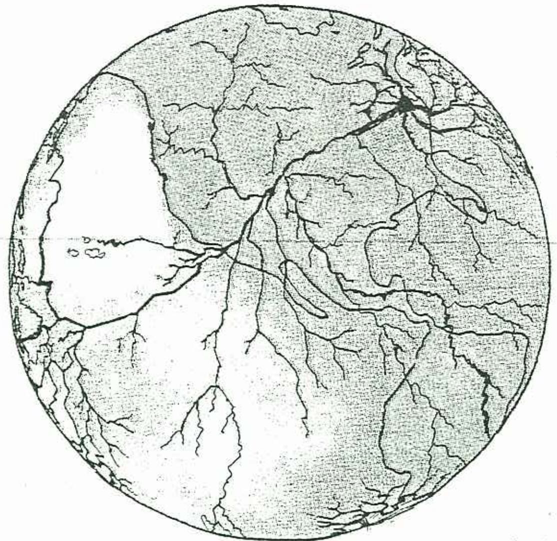


May 1st, 2009

by: Martin A. Armstrong
former Chairman of Princeton Economics International, Ltd.
and Foundation for the Study of Cycles

There is no doubt we will see a new **One World Currency.** This is the next step in the evolution process of **Okinomikos** (Economics) as **Xenophon (431-352BC ca)** first coined the word as the title to his book that today probably would have been given the illustrious title - **How to manage your estate including your wife and slaves - for Dummies!** (meaning = how to regulate the household).

Until 1971, the world for the most part, relied upon gold as money. It was the neutral store of wealth that was recognized around the world. There were times when the gold standard was suspended, such as during the American Civil War. And there were times when some countries adopted a silver standard because they had too little gold to create a viable money supply domestically such as in China and Mexico during the last quarter-century in the 1800s. There was a suspension of the gold standard during periods of war, but we must exclude these interregnum periods for now.

The **Monetary Crisis Cycle** of 37.33 years has come on target - 2008 as calculated from 1971 turning point when the gold standard died. Go back another 37 years and we come to 1934 when Franklin D. Roosevelt confiscated gold and created a **Two-Tier Gold Standard** whereas gold was illegal domestically, but served as the ultimate store of wealth to settle the balance of payments among nations. Go back yet another 37 years and we come to the crisis of 1896 where J.P. Morgan had to gather a consortium of banks to lend the US Treasury a $100 million in gold because it was bankrupt. If we go back yet another 37 years, we come to 1860 with the break of the Union and the abandonment of the gold standard thereafter for the Civil War. We can keep going back in time and find amazing correlations to the various currency crisis periods that seem to appear like clockwork. Perhaps it just takes 37 years before man routinely screws up everything one way or another. The answer to the regularity is a bit deeper than that and is interlinked with a host of other regular events including weather. That is for another day.

There is a rising discontent politically behind closed doors where some of the noise is filtering out through the cracks. Both China and Russia are raising the question about the dollar and its global reserve currency status. China has even suggested that it wants a "guarantee" that its $1 trillion reserve will not be just devalued by spendthrift domestic stimulus packages. Those who seem to have great difficulty in believing there are even cycles, fail to understand that there are a limited number of options, and the one thing that remains unchanging, is human nature. Just as China has asked for a "guarantee" now, so did Britain in 1971 that fueled the closing of the gold window by Nixon. History does repeat!

The One World Currency Cometh ~

There will be no avoiding a **One World Currency** - after all is said and done, that is what the gold standard was. There will be the biblical soothsayers who will be carrying their signs that the end is here and repent. But for the most part, we always had a **One World Currency** meaning gold. The real issue that seems to get the juices flowing is the idea that the Anti-Christ will control all commerce and thus will prevent the buying or selling of anything with a **One World Currency** and accepting the number of his name **666** stamped on your forehead or right hand. Perhaps the Anti-Christ was really Karl Marx, and his posterity are organized governments who follow Adam smith's **Invisible Hand** insofar as their self-interest dictates more and more power is needed to control the population. Look well at the shenanigans of government, for there lies the true threat to the liberty of the people.

For now, the real problem we have is that the floating exchange rate system is causing economic distress that may break the back of the average person. On the one hand the United States wants to be the world leader. On the other, it wants freedom to expand Marxism to create a social state. Either we abandon the world leader shit and worry about our own, or we abandon our own and tell the people you must suffer because the politicians want to play king of the mountain. We cannot have our cake and eat it too under such a current system.

At the same time, there is about $5 trillion outstanding in world dollar reserves outside the United States. Those people holding the dollars believe that they have a right to be heard in economic policies that will effect the value of those reserves. We cannot say; "Here support the dollar, but shut up about our domestic policies." If we double our money supply squandering that on infrastructure payments that do nothing to stimulate either the domestic or international economy, then there is going to be concern about the lack of a voice in those policies. Remember what the slogan was that symbolized the American Revolution? **"No taxation without representation."**

The complaint of the founders of the United States was that England was raising taxes, but Americans had no seats in Parliament. There was no voice to even object to the spendthrift policies of King George III. We are doing the same thing right now to those who hold $5 trillion worth of dollar reserves. If you want to see a real economic crisis, what if they said here, take them back now! It will be time to turn out the lights.

How do we retain sovereignty?

The real question then is this. How do we retain sovereignty for domestic policy yet at the same time respect the views of those outside the United States? The idea of creating a new enhanced SDR (Special Drawing Right) at the **IMF** (International Monetary Fund, will not work. The **IMF** lacks integrity and is long known behind closed doors for being a economic prostitute that can be bought. Those put in charge would be subject to favorite appointments, and this would yield sovereignty to an agency that is just not trust-worthy.

So how do we create a new world monetary system that is still viable, retains individualism among nations, and reduces the threat of global war be it either physical or economic? The answer is to create a new **Global Central Bank** kind-of like the **EU** where the head rotates among nations, rather than appointments from private Investment Banks groomed for the job. We need not a single currency used in each nation locally, but a **Two-Tier Currency** system where international payments only are filtered.

A Two-Tier Currency System

A **Two-Tier Currency System** would allow us to retain the individual sovereignty that embraces the "culture" of each nation and simultaneously create accountability among nations. The whole problem with **Bretton Woods** back in 1944 setting up the U.S. dollar as the reserve currency, was that it was inflexible and polluted the global economy causing it to suffer by the exportation of domestic economic policy from the United States.

Bretton Woods was not well planned. It "fixed" the dollar to $35 of gold, but it did not account for domestic policy interfering with international stability. If politicians stood up and ran for office promising new spending programs, they did not consider the impact upon the supply of dollars relative to gold. Had gold been allowed to float, then perhaps the domestic policies would not have been exported to the global economy that led to (1) the establishment of a **two-tier gold standard** in 1968 when gold began to trade on the London Metals Exchange establishing a "free market price" for gold that rose to $42 at one point, and the "official" standard between nations of $35; (2) the entire collapse of the gold standard by 1971.

Europeans began to see massive increases in dollars, but no corresponding increase in gold reserves. The Europeans began to "put" dollars to the US Treasury demanding gold at $35. This effort was led by the Swiss and French. Yet finally, in 1971 even Britain joined and asked for a "guarantee" that the United States would secure the value of the dollar with gold. That sparked the closing of the gold window where gold was exchanged for dollars, and thus the end of the gold standard officially took place.

Bretton Woods was a total faliure. Why? Because it did not recognize that no matter what the nation, politicians always spend more than they have. There was no practical way for the world to force economic responsibility upon American politics. American politicians would never yield sovereignty to the world, for how else could they run for office if they could not promise gifts for the people?

It must Be Practical

We cannot design a system that sounds nice, but has no possible hope of long-term survivability. It must be **Practical** or we will end up with another bandaid. **Bretton Woods** failed because it left the politicians in charge of the money supply with no sense of responsibility whatsoever for its relationship to the gold supply. If gold had floated freely, perhaps we could still have a monetary system that survived. But gold is so rare, there is less than 1 ounce (troy) per person in the entire world. Its real value would probably be in excess of $10,000 per ounce. But we have to be practical and also realize that the supply of gold does not increase automatically with economic growth nor with population growth. Fixing gold would amount to an official form of deflation by decree, for the value of goods and all services would decline against gold when its supply does not increase in proportion to economic growth or population growth. Instead of there being 1 ounce per person, the day would come when there was ½ ounce per person. That is institutionalized deflation.

The creation of money is largely today in the hands of the private sector. This takes place through leverage in debt creating a spiral of velocity whereby the same $100 is multipled in a cascade of loans. If you really look close at the books of some institutions, you will see net revenues of a few hundred million dollars but the "risk" factor from leverage may be hundreds of millions of dollars.

To be **practical**, government will not surrender their sovereignty to some one world government. Those notions of grand conspiracy theories are not remotely even possible unless there was a major world war and all government no longer existed. That extreme circumstance set aside along with visions of the **Illuminati** or whatever else we may call them, neither the people nor the politicians would surrender all their individuality and customes to some sort of central control.

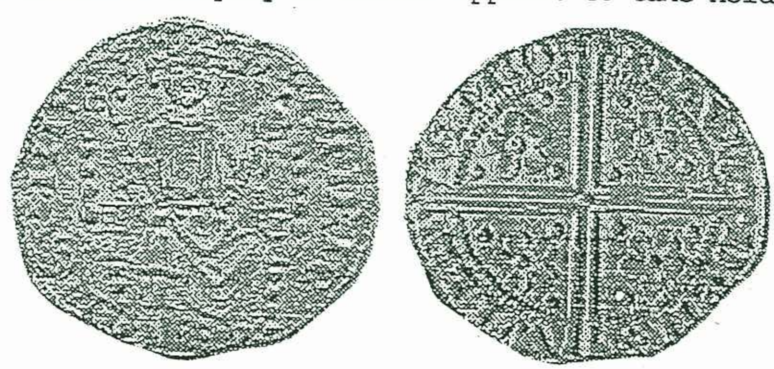
Yet at the same time, we must respect that there has always been one reserve currency since ancient times. Even during the Dark Ages of Western Europe, still it was the currency of the Byzantine Empire that circulated and was the only minted gold coin that circulated among the various regions of the world. While the formal name was the gold **"solidus"** much as we formally have a "dollar," the slang name became known as the **"Byzant"** as we call the dollar a "greenback" or a "buck" and a wide variety of other names here and there.

Gold Solidus "Byzant" 7th-8th Century of Justinian II ruled 685AD - 711AD

For the most part, after the fall of Rome in 476AD, gold began to disappear in Western Europe. Some of the barbarians did at first attempt to mint gold coins in the image of the Romans, but they were very crude, and quickly died out on the Continental Europe. Even before the Roman conquest of Britain, we find crude gold coins minted in the image of Rome. It is not surprising that the Britished minted the gold **Thrymsa** coinage briefly during the 600s prior to any such issues on the Continent.

The Byzantine gold **Byzant** became the world currency throughout the dark ages much as dollars circulated freely in Russia, South America, and Asia. The **Byzant** was thus the world currency largely between 500 and about 1250 AD. As Constantinople began to lose its military power and world status to the Arabs and the Crusades, the shift of power began and for the first time we begin to see gold coinage be re-minted in Western Europe. The first gold coin appears in Italy at Brindisi in 1232. Other city states see this as a sign of wealth and power so we see in 1252 Floence begins to mint a gold coin. The next year, this new powerful display of wealth appears to take hold in Genoa in 1253.

This spread of symbolic wealth and power extends to Britain and we now begin to see the Gold Penny issued by Henry III (1216-1272) in the year 1257. The ratio of gold to silver is 20:1. The gold penny is equal to 20 silver pennies. Thus, for a state to issue a gold coin was in itself a symbol of wealth and great power. This became the new competition.



Gold Penny of Henry III (1216-1272AD) issued 1257

Gold Stater of Lydia

The power to create money has long been a symbol of wealth and power. The first coins to appear are in Lydia (modern Turkey) around 600 BC. As it states often in the Bible, money was transacted by "weight" requiring it to be tested for each transaction. In Lydia, the idea emerged that the state would create standardize lumps of **electrum** (mixture of gold & silver) and at first mark them with an incuse punch. This gives way to the separation of gold and silver refining and the introduction of pure gold coins. The image at first was that of the city, the Lion confronting a bull. It was the conquest of Asia Minor (Turkey) by the Persians, who adopted this new great invention and we begin to see the first image of a king, Darius (522-486BC). This would become a political symbol that was followed by Alexander the Great and eventually Rome.

History repeats in part due to "tradition" because the one thing that remains constant is human nature. To the right, you will see a coin from the **Bar Kokhba** Jewish revolt of 132-135AD. The Roman Emperor Hadrian (117-138AD) attempted to **Hellenize** the Jews making them "modern" by outlawing circumcision, and he built a temple to Jupiter Capitolinus on the spot of the old Jewish temple that had been destroyed under Vespasian (69-79AD) and the famous battle of Massda.

Bar Kokhba Revolt 132-135AD struck over a Roman Colonial Tetdradram (Silver)

Simeon Bar Kosba became a Jewish leader who led the revolt that failed. He was hailed as the Messiah being a decendant of King David by the leading rabbi Akiva ben Yosef who gave him the name **Bar Kokhba**. The Christian sect refused to follow the revolt. The revolt was so serious, that Hadrian himself visited the battlefield and then ordered the famous **Xth Legion** with its 35,000 men to travel from Britain and take Jerusalem. Some 580,000 casualties were reported. Yet the real significance of these coins is to show how they symbolized power that immediately they took Roman coins, and struck on top a Jewish image of the once Temple with the reverse inscription dating the coin as Year 1. This is why whether the dollar is "the" world currency is a matter that is becoming very political.

The question of creating a **One World Currency** is political. As the United States continues to lose power because of its stupid policies that borrowing is somehow less inflationary than printing simply because we arbitrarily decree that issuing government bonds is not "money" for the purposes of calculation, the sheer fact that the dollar reserves are $5 trillion, means we are borrowing our future from the rest of the world. That is transfering power overseas and entitles them to a say in the domestic policies that increase the money supply and thus depreciates the value of the dollars held overseas. From their perspective, since the dollar is a "reserve" currency, this is no different than the power play over creating coins for thousands of years.

By accepting the dollar as the "reserve" currency, it is a form of political inferiority to which all other nations are subjected. This will come to an end one way or another as it always has. Our politicians, both Republicans and Democrats, lack the understanding of history, and lack the incentive beyond the next election to even contemplate a long-term soloution.

The first real monetary reform in Western Europe post-the fall of Rome in 476AD was instituted by **Charlemagne (742-814AD)**, which set in motion the base of our monetary system even today. **Charlemagne** was the first king or prince to try to reestablish the old Roman Empire. He reformed lending money by outlawing usury that implies that while there was no formal banking houses, there were still moneylenders. We must realize that since Roman times, being a banker or moneylender was not a dignified business. **Cato the Younger (95-46BC)** said of the trade:

> "In preference to farming one might seek gain by commerce on the seas, were it not so perilous, and money lending, if it were honorable .... How much worse the money lender was considered by our forefathers than the thief. ..."

After the current economic crisis, the image of Investment Bankers may once again revert to the old images. Nevertheless, what is at issue is going to be a major economic monetary reform. That is what **Charlemagne** did creating the silver penny that he named a **"denier"** after the Roman **denarius**, and this was valued at twelve pence equalled to one shilling (french sou), and twenty shillings equaled one **pound.**

By the time of **Charlemagne,** Latin as a spoken language had vanished. There was no international trade and the purchasing of luxuries had ceased. The Arabs had invaded Spain in 711, but they had taken Syria, Egypt, and Persia in 632. The Arabs took Asia Minor in 669, and by 698 they took Carthage. The Arabs had taken Spain defeating the old barbarians known as the Visigoths, and it was the battle of 732 at Tours where Charles Martel defeated the Arabs preventing their goal to take all of Europe. While the Arabs were stopped at the Pyrenees, they nonetheless controlled the Mediterranean, and thus international trade for Europe was non-existent. The Arabs kept Europe in check in the south, while the Vikings plundered the north. In fact, it was the Vikings who invaded Russia and gave it its name from the Viking tribe of the Russ.

Money and its flow among nations has always been the key to economic growth. With Europe blocked by the Arabs in the South and the Vikings in the north, it fell into a spiral of a slow death deepening the dark ages for the lack of trade. International cooperation globally is essential to economic growth and the key advancement of social progress. Karl Marx got it wrong, and he tried to prevent individualism that is the core of economic growth and personal freedom. He called it **capitalism** focusing only on the money, whereas the proper term should be centered upon the liberty it creates for personal choice and thus freedom from tyranny.

What we need to secure is global trade to prevent slipping back into a waring period of a lack of international cooperation. We need international trade just as we need human interaction. We cannot imprison ourselves in a solitary form of confinement. So our goals to be practical must be:

(1) retain individual sovereignty and the liberty to create a society that we choose to live in

(2) isolate the economic effects of domestic policy from the consequences of international responsibility

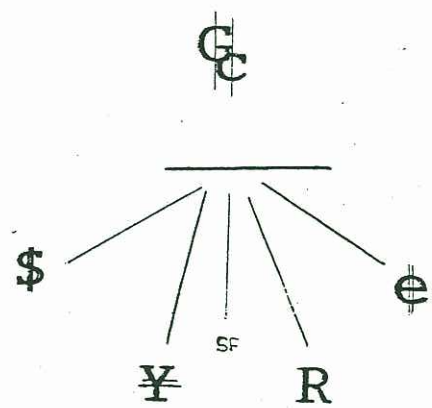
(3) ensure that international trade flows without restriction calculated within the single international currency of account.

The fall of the dollar is reflected also within the debt. Between 1946 and 1981, the very **price** of US Government debt had fallen 83%. As Adam Smith wrote in his chapter on National Debt within the **Wealth of Nations**, he questioned why government debt is ever purchased or considered to be "quality" when in fact no evidence ever exists of a single nation who has ever paid off its debt. National Debts have always gone into default and Democracy appears to be no exception since politicians are only concerned about winning the next elecetion, not about the long-term future of the nation when they will no longer be in power.

The dollar has been the **"Byzant" of** modern times. Its reign of power is coming to an end for the debt is becoming just unsupportable. Don't expect the dollar to just drop from here. There is still some political life left inside, and besides, the debt levels outside the nation in Europe and Japan are not exactly an alternative.

Creating The Global Currency

How do we create a new world currency that is like gold in a sense, but at the same time, its supply is not dictated by the whims of chance on finding new supplies? If we create a **Global Central Bank** that is not manned by Investment Bankers covertly to gain inside information and influence, we can have the head position rotate among the **G20** and each nation provides its raw economic statistics, allowing the new entity to create global economic statistics by the same formulas free from political manipulation. The formulas must be fixed, and not subject to change to hide the trends. Money is thus created based upon the a non-biased GDP concept.



Each country can retain its social ideals and its structure that will be denominated in its current local currency. However, the importation or exportation of product will take place only in **International Currency** issued by the **Global Central Bank** whose supply will be limited to global GDP. Each nation will retain its local currency that must be converted for international transactions, and the interest rates will also vary accoring to local economic conditions all tradable on global exchanges. This will retain local flexibility with a check and balance globally.

We know that **Bretton Woods** failed because it created a fixed rate system of dollars to gold at $35, but it could not fix the supply of dollars without the surrender of domestic policy of the United States. Therefore, we must remain very practical and realistic. The economy will grow in ways we cannot anticipate long-term, so we cannot create **fixed** relationships that will only create the next crisis.

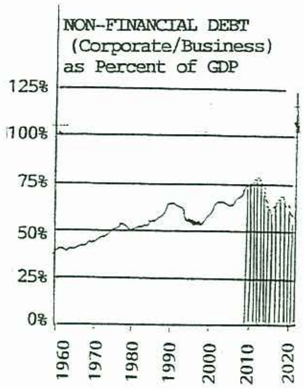
The Free Markets

When one talks about the **"Free Markets"** some will immediately argue that is **"Republican"** and a right wing concept. The name calling and labels cannot hide the truth. To set the record straight, neither the **Republicans** nor the **Democrats** have ever respected the **Free Markets** for both sides have always wanted to control the economy and have never allowed the **Free Markets** to operate.

With every economic decline, there is hardship of course. But at the same time there is the shift in innovation that creates the next cycle. For example, the labor unions have been the extreme reaction to the totalitarian policies of management. Just as the extreme on one side is destructive as Marx envisioned regarding the business side, taking the power and placing it in the hands of labor resulted in the very same economic result - consumers paid more do to the greed of labor rather than the employer.

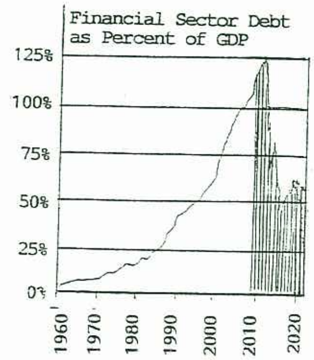
The **Free Markets** correct the excess within the system and is destroying the militant labor unions as evidenced at **GM** just as the greed of railroads was corrected by the Panic of 1907 destroying companies driving their stocks down from $400 to less than $1.

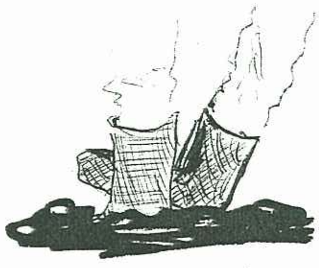
There is always an outcry against economic declines because those who are the cause of the decline, do not want to lose. It is not **Free Markets** what the **Republicans** did in the least. They sheparded through $700 billion bailout for the banks trying to keep the financial industry at its extreme bubble top. It is interesting that when **Bear Sterns** complained about **Goldman Sachs** taking short positions against their stock as did **Leman Brothers**, the **Republicans** did nothing. Yet when the selling came and turned against **Goldman Sachs** and **J.P. Morgan Stanley**, suddenly short selling of those financial companies was prohibited. So much for **Free Markets.**



Looking at the two charts for corporate (non-financial) and the Financial Sector, we see easily that what we are dealing with is a **Bubble Top** in the Financial Sectors, not corporate America. The excess we are trying to hold-on-to is in the hands of the very people responsible for this major economic correction.

What peaked precisely with the 2007.15 turning point of the **Economic Confidence Model** was the Financial stocks, not the broad market. The Dow rose to new highs slightly in October 2007, but not real estate nor the Financial stocks. In fact, on this minor turning point of April 19th, 2009, again the Financial stocks got crushed on Monday April 20th. The **Model** has always signalled the market of excess be it the broad market or a particular sector and at times it pinpoints the nation or region.





Wading through the Bullshit

Both the **Republicans** and the **Democrats** argue over **Free Markets** but neither in fact are ever willing to accept their judgment. Every system reaches a **point** of plain maximum **entropy** and it can no longer be sustained. Trying to protect the **Investment Banks** is insane and amounts to the same thing as trying to pass a law that it shall be illegal to rain on Sunday.

Anyone who argues against the verdict of the **Free Markets** is spinning you with a line of **Bullshit** that insults your very intelligence by trying to argue that they essentially disagree with the verdict and want to force a different outcome. You can grow lettuce in the desert with a tanker full of water. Of course the cost may be $100 per head. Does it make any sense to try to hold-on to a system that is obviously faltering? You cannot fix a fatal flaw and a sector that has seen its days. It will collapse one way or another. The question is, fight the **Free Market** and you will end with a lost decade like in Japan. Allow the readjustment, and the pain is over very quickly. The Great Depression peaked on September 3rd, 1929, and bottomed by July 1932. There is something to be said for the **Free Markets.**

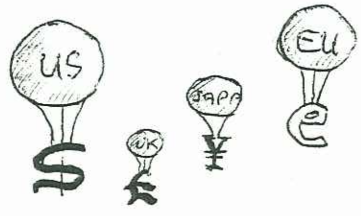
Paul Volker intervened in 1980 to stop inflation using interest rates. All he did was complete the 51.6 year cycle that pinpointed the high would take place in 1981 in Public Confidence. The US government bonds collapsed in price from 1946 to 1981 falling 83% almost as bad as the Dow Industrials between 1929 and 1932 - 89%.

That solution of Volker's lifting the usury laws,. allowed for historically high interest rates that have exceeded centuries of records and allowed the Financial Sector to expand. Their greed has stifled economic growth causing consumers to spend far more on interest than they would have at any time post-44BC. This has reduced economic growth by reducing economic expansion outside of the Financial Sectors, and now we have these same banks raising interest rates to keep up their profits at the expense of the entire global economy. Interest rates must be put back to where they were with usury laws before the 1980 inflationary crisis. This is not the **Free Markets** that are controlling, but the greed of the banks will destroy themselves just as the greed of the labor unions and **GM.**

If we do not stop trying to protect either labor or business with laws tailored to counter-act the **Free Markets,** we will continue to create wild swings in the world economy and those who want to argue against **Free Markets,** are only trying to impose their own dictorial views that will no more work than what we have experienced so far. It is time to stop the **Bullshit** and let us look at these things objectively.

Therefore, we must accept that some economies will grow while others will fall. The **Free Markets** are in effect the people - not investment bankers. We are not to create a system that can be manipulated, controlled indirectly by political friends or appointments, but a system in which people are allowed to vote with their capital that is the check and balance against corruption and political lack of will.

We have to stop the political **Bullshit** and just for once, honestly approach this problem because it's our children's lives we are messing up. If you care so much for your family, then how about stopping the political nonsense and address the issue rather than argue against **Free Markets** that will **always** win just as China and Russia were forced to give up Marx because it was unsustainable.



We Must Retain the Floating Exchange Rate System

There must remain in place a floating currency system that allows capital to move freely to provide the incentive to the local politicians to keep an honest game. Capital must be free to move and we must reject currency controls that are nothing more than a financial **Berlin Wall.**

If capital is free to move, the people can judge the performance of their elected politicians. If we allow for the free movement of capital, it will flow like water to the best spots. Just look at what states corporations set up their charters. The most favorable was Delaware for a long time. Then Texas competed with no corporate income taxes. The competition between the states for jobs, is how it must be allowed to work among nations.

Those nations who avoid Marx's centralize planning, will rise to the top. If we eliminate the direct taxation, then it will be reduced to a competition for the bussiness to:

(1) skilled labor capable of doing the job
(2) cost of that labor
(3) the cost of transportation of product
(4) the rule of law to secured the value of the business

You can have the cheapest labor in the world, but if they are (1) unskilled and (2) there is no **Rule of Law** to secure the investment, then such countries are in fact not viable candidates to enter the global economy. Their assets, be the people or natural resources, are incapable of becoming "capital" that contributes to the national wealth of a nation. To earn more currency, then invest in the people and reject the tyranny of arbitrary governments that refuse to adhere to the **Rule of Law.** We need to secure human rights by subjecting **all** governments to a new **World Court** where any person may be heard where any government has refused to comply with agreed upon human rights (the alleged terrorists should have been able to be heard against George Bush in a neutral world court), with appointed counsel.

By allowing capital to flow freely, this will be the check and balance against the misappropriation of national wealth of any nation. The individual currency of each nation should be freely traded against the **Global Currency** and this will ensure an even playing field blocking manipulations of currency to gain trade positions. The freedom of capital to move between nations will further economic growth, provide the incentive for oppressive states to comply with human rights in order to attract more capital investment that will expand that nation's **Capital Formation** converting its people and natural resources into to capital. This will help to bring to the full benefit of the **Comparative Advantage** each nation has as set forth by **David Ricardo (1772-1823)**, and floating interest rates will allow also capital to be attracted when necessary.

By retaining the **Floating Exchange Rate System** where by the **Free Markets** will dictate the value of a currency relative to the **Global Currency Unit** and **Gold** for the private sector, this will help to keep the politicians honest. I was told back in the early 1980s when we were going to open our first office in London, to bring the American name rather than create a new European name. I was asked to name one European currency analyst. I could not. I was told there were none because the major institutes used Princeton Economics because Americans did not care if the dollar rose or fell. Europeans only were bullish because it was unpatriotic otherwise.

The reason why Princeton Economics became perhaps the largest corporate adviser was because of the independence. After World War II, European politicians used the value of their currency to show what a good job they were doing restoring the economy post-war. The rise of the currency became a symbol of economic success. This created a European bias at the times when it would have been unpatriotic to forecast the decline of the currency. Even recently in **Latvia**, they arrested all the economists who were calling for an economic decline!

If we retain the **Floating Exchange Rate System**, we will provide a measure of confidence in the political performance of each nation. This will be beneficial economically and allow the **Free Markets** to provide that safety value. What we must do is simply prevent the institutions of **Investment Banks** from colluding to just manipulate the markets that can be done briefly, not alter actual trends.

The **Floating Exchange Rate System** provides an escape valve that otherwise would manifest itself in other ways - forcing hoarding of cash, violent swings between tangible assets and the currency, that is often portrayed as "inflation" that is truly the "depreciation in the value of the currency" rather than the wholesale rise in all goods and services.

The **Floating Exchange Rates System** absorbs the economic fluctuations that will only be transferred to particular sectors within the domestic economy. This will also allow the best measure of economic confidence both domestically as well as from the international perspective.

By retaining the **Floating Exchange Rate System**, we will retain the ability to deal in a flexible manner with the economy offering a transition saftey-net that is required for the decline and fall of particular sectors. Just as the Great Depression began with 40% of the work force still agrarian, the 7 years of drought forced the people off the farms to become skilled labor. In that sense, the **WPA** creating the infrastructure employment was an excellent idea. Today, the **WPA** makes no sense for what we are looking at is convincing ex-Union Labor to find new jobs and to see the same decline in the number of people employed in banks. Like the farmers of the '30s, we are now looking at bankers and union workers who need to make the transition to new fields of commerce.

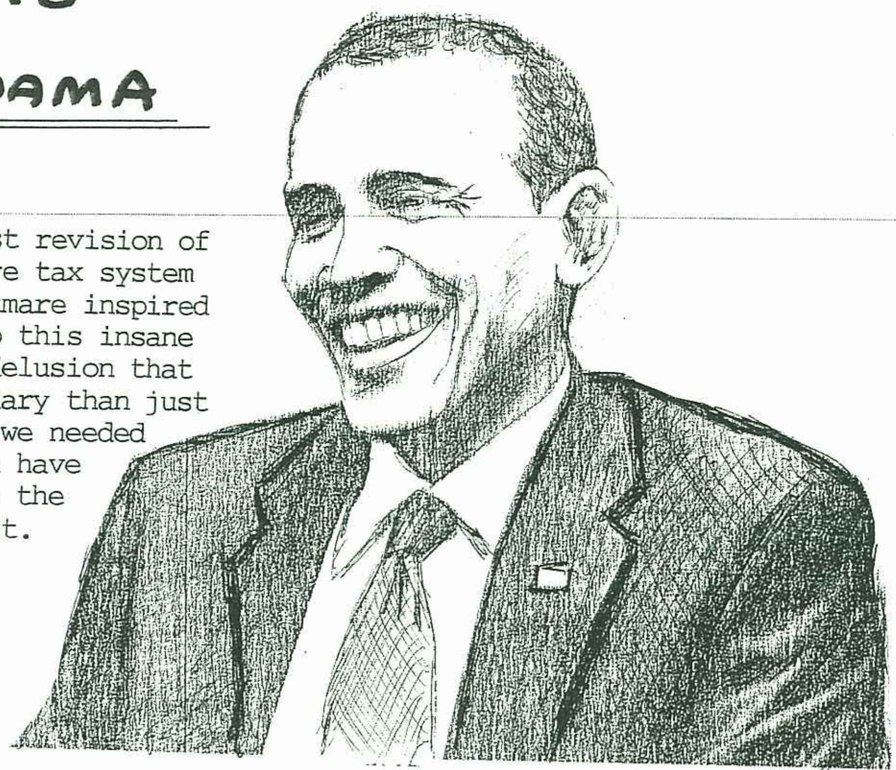
The **Internet** will displace **some** retail stores, banks, lawyers, and countless other types of business operations. The sooner people begin to make the transition, the greater the recovery effort will be economically. We may not yet be at the age of the Jetsons, but we are coming closer today than ever before. It was the auto industry that led us out of the economic depression following the collapse of commodities between 1919 and 1921 from World War I that had provided the transition from the previous fall of the railroads in 1907. Now it is the Financial banking sector and we must let the **Free Markets** provide that next transition as it always has done.

Long-Term Planning

We need to understand the **Free Markets** and how these corrections are in fact necessary for long-term growth. We have to begin to invest in understanding the long-term trends and come up with a plan other than sheer reactionary panics that are designed only to win the next election at the cost of our viability.

Every industry will fight and resist change. We have to expect the Investment Banks will try to lobby Washington to keep their empire going. We cannot listen to them any more than we can listen to labor unions who would see the solution as outlawing all foreign cars so they can make what they demand. The toxic assets should be placed in a single fund, allow private investors to buy shares, not only the bankers that caused this mess and have reached their industry peak.

Open Letter to President Obama



Dear Mr. President;

We desperately need honest revision of our monetary system, our entire tax system that was dreamed up in a nightmare inspired by Karl Marx, and we must stop this insane borrowing of money under the delusion that somehow this is less inflationary than just printing. Had we printed what we needed rather than borrowed, we would have saved more than $6 trillion in the past 20 years alone in interest.

We are losing our status as the leading economy, and we will see political unrest if we do not abandon the whole Marxist theories. This is an opportunity to lead the world in the right direction. If we fail in this moment of opportunity, the door will close forever. When opportunity knocks at the door, we cannot be afraid to open it. Let us put aside the lack of long-term planning built upon the the major fault produced by Democracy - planning never extends beyond the election cycle itself.

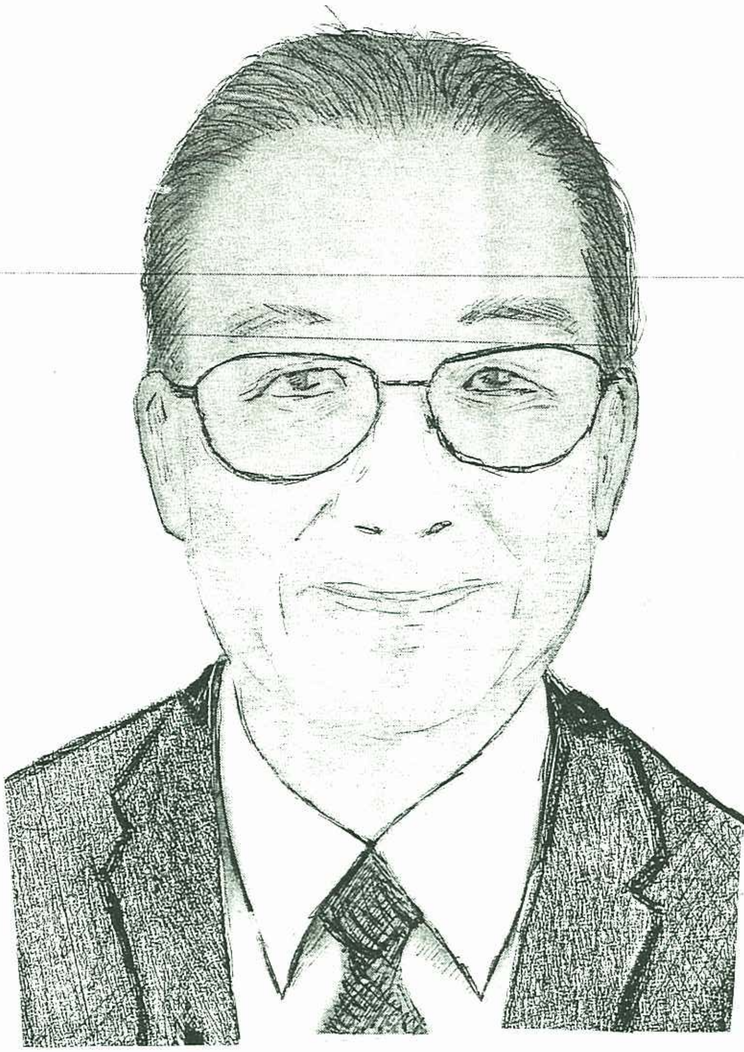
This is a moment in time where we truly need a statesmen to save our society from the brink of self-destruction. We need someone who will do the right thing and rise above the **Invisible Hand** of Adam Smith driven by self-interest. You have two daughters. We cannot be selfish and only think about our own future. It is our children we must think of and we cannot leave them a world in total shambles.

If the Democrats truly care about people, then it is time to stop coveting the goods of the rich and get down to preserving the liberty of the people. If we do not seriously reform our economy, there will be none.

The lifting of usury laws in 1980 to enable insane interest rates to stop the spiral of inflation, only transfered the inflation to debt. Our national debt was only $1 trillion in 1980. Look at it now.

We have to end the reign of Investment Bankers. This is so important. Look at the credit card companies. Raising rates so high is draining household income and diverting what would create jobs, into maintaining a financial industry that is like trying to outlaw the Dow Jones from trading below 10,000. Raising interest rates on credit cards is diverting capital from creating jobs feeding the banks alone.

We cannot continue to expect the dollar to be the reserve currency of the world, and ignore international effects of domestic spending. They will dump all US debt and implode our economy far worse than the Great Depression because in the 1930s, it was Europe that defaulted. Today, it is the United States that is the same trouble and we are no longer the reservoir of capital to rebuild the world. The tables have changed. We can do this now. But that knock on the door by Opportunity will not last very long. We must think about our children.



An Open Letter to Wen Jiabao

Dear Mr. Wen Jiabao;

This is the day when China can rise to be a great economic power in the world that may last at least 224 years into the future. I have been to Be Beijing upon the invitation of of your Government following the Asian Crisis. I was greatly impressed by what I saw, and it was the subtle things that allow one to see beyond just the image.

China is where the US was during the 1850s insofar as being still highly agrarian. The US opened the West and sold public lands creating personal ownership. That day must still come for RURAL China and that will spark such pride and further innovation, that the long-term prospects are fantastic.

I was taken to a building just on the outskirts of Beijing where people were surfing the **Internet** gathering data and information. I was shown how data was being collected on everything that moved within china - 249 varieties of tea. It was very refreshing to see the study of the free markets, rather than the Marxist attempt to create one-price-for-all failing to consider even transportation costs.

China has what it takes to rise. It is (1) the preservation of the **Rule of Law** that gives value to all assets. A home has no value unless there is a right that can be enforced, and (2) there must be the freedom to innovate that only those who see the possibilities can when in the front line.

There should be a safety-net to help in times like these, but it is also the economic swings that correct the excesses and present the opportunities for the next wave of innovation. Do not rely upon the Western style of education. Embrace the concept of apprenticeship. Every study shows man learns faster, and retains knowledge from actually doing something, than just reading about it.

China has nearly doubled its gold reserves, and is now the Fifth largest in that respect among nations. China should purchase gold through the United States for that will also reduce the trade deficit improving the image of China. It should allow land ownership for then the rural class will have pride in what they have and this will encourage economic growth. Avoid direct taxation as the founders of the US established, and resist claims from Europe or the US to aid them in their Marxist policies of taxation. China can encourage gloabl reform and assume the leadership if it reduces the subsidization of Western marxist policies. Be cautious about western debt, increase the reserves of gold, and this will gently encourage reform in the west to create a new understanding of global economics and human rights.

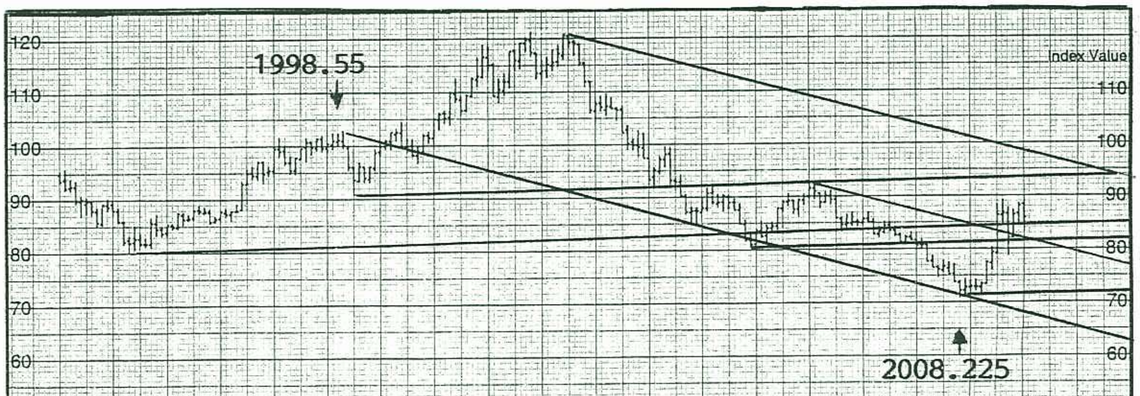
The Dollar World

The major high in the dollar was actually reached in late 1932 during the Great Depression. Virtually all of Europe defaulted on its national debt, with the exception of Great Britain and Switzerland who entered into a moritorium suspending interest payments. This sent the US dollar to record highs on a flight to quality perspective. Of course the US politicians saw this as a threat to the economy and supported **Protectionism.** That response was akin to the arab blocking of the access to the Mediterranean that then thrust deep into the heart of Western Europe the end of trade and imposing a dark age where everything was lost right down to language.

The monetary cycle frequency tends to be 37.33 years and if we add this to 1932.8, we come to 1970.13. This is where there had existed a two-tier gold market - (1) official price for settlement between nations, and (2) the free market price on the London Metals Exchange. In 1970, this is the first time that gold actually fell below the official price of $35 on the free market. This was clearly a major high for the dollar just before the crash and burn that followed the next year when President Nixon closed the gold window and this began the floating exchange rate system. We add this and we come to 2007. This appears to have produced a cycle inversion insofar as instead of a high for the dollar, we have a major low. To the shock of most, the dollar then rallied from the first turning point on the **Economic Confidence Model** being 2008.225 (March 23rd, 2008). From there as we then approach the next minor turning point of April 19th, 2009, the dollar has declined marginally, but between the 1970 high, the next low for the dollar was in 1974, a rally into 1976, and the decline into 1980. Keeping the turning points in time, this projects the next big turning point to be 2011, 2013, and 2017.

The 2011 target lines up with the **Economic Confidence Model** as well so where we find these convergences, they tend to be the real important swings and turning points. The question that seems to be open, is shall this be a high or a low? Can we really see a rally for the dollar last that long into ideally June 13th, 2011?

US DOLLAR INDEX - ICE
MONTHLY NEAREST FUTURES 1994-March 2009



Market Outlook

The Monthly Chart provided for the ICE Dollar Index shows the low that was formed with the **Economic Confidence Model 2008.225.** I have provided the two main channels to watch. The **First** Broad Channel is constructed by taking the high on the major turning point in July 1998 just prior to the collapse of Long-Term Capital Management and tied to the 2008 low in March with the current **Economic Confidence Model Wave.** This broad channel is then formed by taking the parallel to the major high in 2002 that was also in line with the nadir of the last wave **2002.85.**

This Broad Channel stands at 99 in April and scales downward to reach about 96 by the end of 2009. Another parallel is formed then by using the reaction high in December 2005. This is providing a keen monthly closing support level to watch for the year. The Index penetrated it in December, but it still held this support for the close. It appears that a monthly closing above about 91 will signal that the dollar is going to rise sharply and believe it or not, could actually exceed the high of 2002 going into 2011 as nuts as that may sound.

The only explanation for this (shy of the Obama Administration actually listening to suggestions), would tend to suggest a sharp decline in the economic prospect within Europe and Russia. This may even forewarn of a capital shift that might be geopolitical in design. Instability in Russia would cause aggressive behavior on Putin's part that would be sufficient to send capital fleeing to the dollar.

Of course, the dollar historically rises in periods of sharp economic declines as long as tangible assets, debt, still tend to contract in value. The real estate market still does not appear bullish and the fact that J.P.Morgan and Goldman Sachs are trying so hard to depart from TARP, we may yet see another collapse in the Investment Banking system since neither firm has long-term models or else they would never have fallen from grace.

The **Second Channel** is constructed from the low of the 1998 Long-Term Capital Management Crash connecting this to the high of the reaction rally into December 2005. Parallels are then taken from the low of 1995 where the yen made its major high, the low in January 2005, and then the bottom is the major low in 2008.

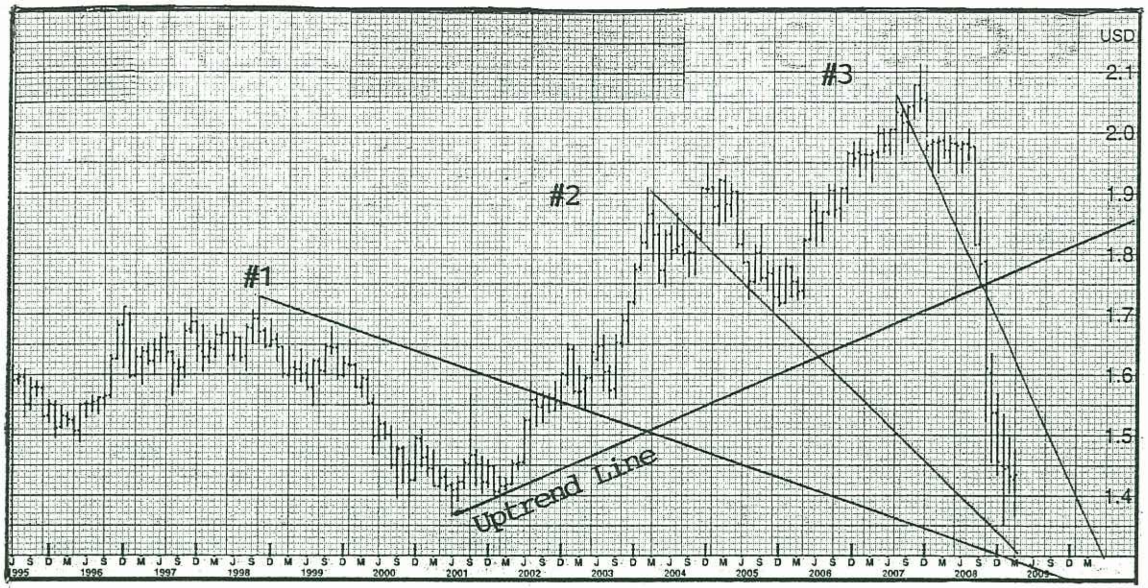
Looking at the **Second Channel**, we can see that the dollar has exceeded both these mid-range parallels and has been holding above them on a monthly closing basis. This outlines key support forming technically in the 81-82 range for the balance of the year.

Holding the 81 level on a monthly closing basis seems to be setting the stage for at least some consolidation right now. If we begin to see the dollar index close on the ICE below 79 on a monthly basis, then we may see a dollar decline into 2011. But for now, both economics and geopolitical factors may still favor the United States going into the months ahead.

That does not negate the potential for a sharp rise in gold. We may still see gold rise significantly as the only real viable option to the dollar.

The British Pound

BRITISH POUND IMM
MONTHLY NEAREST FUTURES 1994-March 2009



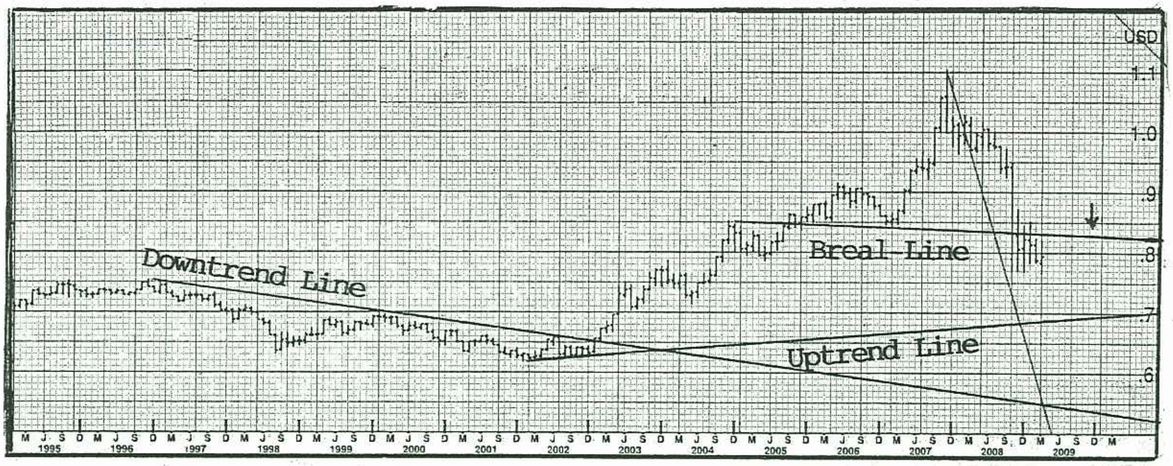
Just for the record, the only city I ever enjoyed living in was London. So while I may be an American, as Tony Bennet said, my heart has never left London. Nevertheless, the sharp decline in the pound has been profound penetrating the low of 2001 dropping to $1.3492. The pound in fact once even stood at near $10 at the birth of the dollar. It was running about $7.50 in the mid 1800s, fell to $5 by the World War I era, and then to about $2.40 post World War II. The low against the dollar was $1.03 back in 1985 signalling the start of the G-5.

Here I have drawn the three main **Break Lines** that are constructed by taking the opposite events - **High** to **Low**, or **Low** to **High**. These are always constructed either side of major events. **#1** construction ties the Long-Term Capital Management high of 1998 to the reation low of 2003, which projects support in the 125-120 range by 2011. **#2** is constructed by taking the high of February 2004 before the major high of December 2004 and tied to the major low of November 2005. This now projects to 105-100 (par) for 2011. **#3** projection is constructed by the first high before the November 2007 high connecting this to the first immediate low in January 2008. This provides resistance for now but often the market can slip above this projection and then follow it down into the major low. That is how the 1929 Crash unfolded. This projects to the most extreme drop putting the potential for a major low in the 99-92 range.

If Britain swings to the left like Iceland, it may be time to turn out the lights. There is a danger that London could lose its financial capital status by over-regulating rather than dealing with the corruption that caused the AIG meltdown. Far too often politicians just throw the baby out with the bath water for they do not understand the real cause. It is not <u>all</u> derivatives, the exchanges were not the problem. It was the corruption of a very few investment banking houses. Not everyone in the financial world!

The Canadian Dollar

CANADIAN DOLLAR IMM
MONTHLY NEAREST FUTURES 1995-March 2009



The Canadian Dollar reached sharply above par to the US dollar in November 2007. Nonetheless, the low left behind in 2002, is not a clear **"V"** spike bottom like the 2007 high. Traditionally, these types of lows never hold and we may yet see new lows under the 2002 level before the trend changes.

The first **Break Line** constructed between the reaction high of late 2004 connecting this to the low established during the reaction of the February low on 2007, projects a rather flat-line escalating down in price very moderately. Yet pay close attention to the **Break Line** for it is persistently providing monthly closing resistance. This shows a steady technical closing resistance on a monthly level at the 82-83 area. Failure to close above this **Break Line** strongly suggest we will see a drop to test the 2002 **Uptrend Line** residing below the 70 area.

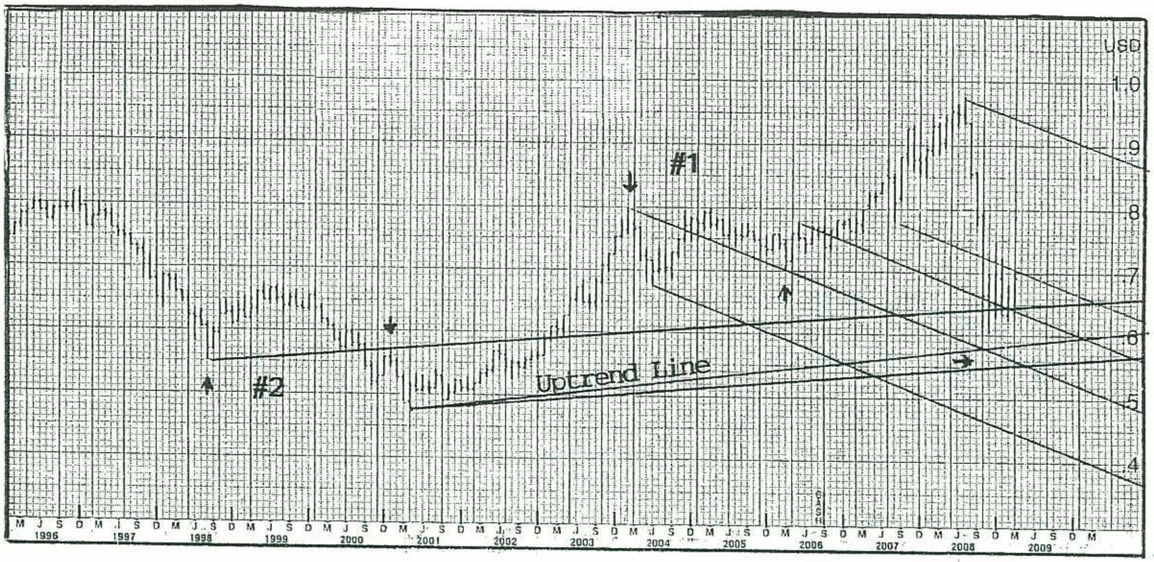
The **Uptrend Line** of **2002** is simply constructed by connecting the major low of March 2002 to the next retest of that low in August of 2002. This again provides a very flat-line that rises from the 62-63 area back in 2002 up to finally reaching perhaps 70 by mid 2010. This is not a major support line, but merely a directional projection. An **Uptrend Line** tends merely to provide a guide when the trend is changing rather than providing any lasting support level.

The third line is a standard **Downtrend Line** constructed from the high of late 1996 connecting this to the next high after the Long-Term Capital Management Crash in September 1998. This line can at times provide major lows, but it is rare. It will provide a general target support level to watch that may provide temporary lows along the way. This projects support at the 55 level for now reaching about 53 by year end.

The **Projection Line** constructed from the major high, shows more of a **Waterfall Target.** This is an extreme projection that tends to provide support targets for a very bear-term type of crash.

the Aussie Dollar

THE AUSTRALIAN DOLLAR - IMM
MONTHLY NEAREST FUTURES 1996-March 2009



Besides Australia being perhaps the most beautiful country I have ever visited, it has far more than resources and charm, it has isolation that may just be a natural defense that provides a very strange one on the country risk list for geopolitical stability.

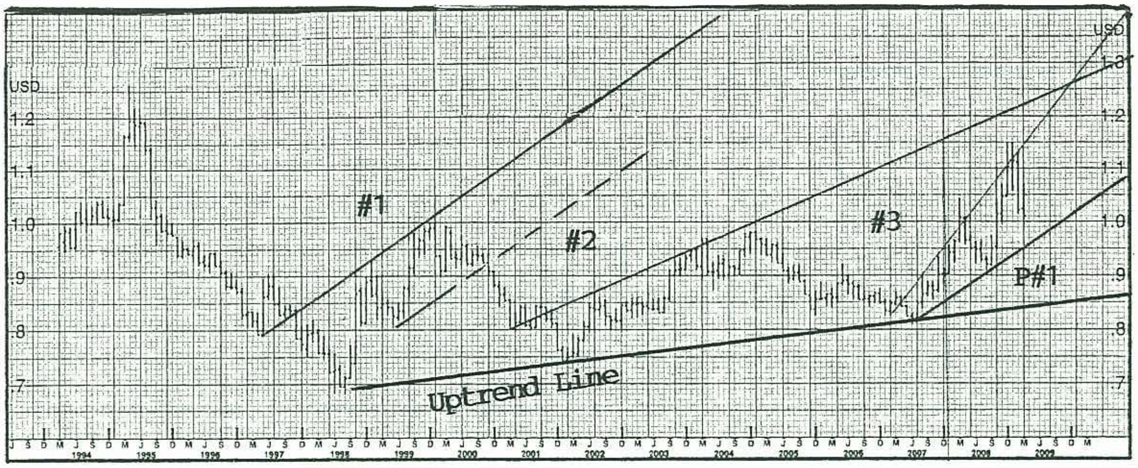
Despite the sharp crash from the July 15th, 2008 high at 97.70 on the IMM, the A$ made the reaction type low within 3 months. It has so far held that low and we have had a moderate period of plain consolidation. Nevertheless, we need to see a monthly closing above the 77 area to suggest that the worst is over.

The primary support lies at 55 and a monthly closing below this area would signal a sharp drop to penetrate the low of 2001 at 47.78. We have two primary channels - #1 is constructed from the high of 2004 and connecting that to the low of 2006. Takinging parallels from this provides the first initial area of technical resistance that is currently at 70 for April and declines to about 67 for year end. We must see the A$ slip back above this current resistance for this to then form support and perhaps hold the 55 level.

The second channel #2 is constructed from taking the low of 1998 and connecting this to the reaction high of 2001. The top of this channel rests currently at 64 for April and rises slightly reaching almost 66. We did close below this level for February. A second close on a monthly basis beneath this technical support should signal a drop to test the bottom of the channel that lies at 55 in April and moves up slightly to 56 by year-end. There is also a mid-channel technical support level formed by the **Uptrend Line** connecting the two lows formed in 2001. Cyclically, 2008 was a 7 year-high, and a reaction to the downside appears likely for 2 to 3 years giving us a low in '09 or '10 at best with the outside moving into a low for 2011.

the Japanese Yen

THE JAPANESE YEN - IMM
MONTHLY NEAREST FUTURES 1994-March 2009



The Japanese economy is still in shambles and we may yet see a fall of the **LDP** for the first time since World War II reforms. You must try to understand the culture in Japan is starting to change. For decades, the people simply obey the commands of Government. **Nippon Life** was a major client in Japan. They followed our model and wanted to hedge at the 1989 high. Their portfolio then stood at $1 trillion. I flew to Tokyo to try to work on the problem. Considering just 9 years before, the entire national debt of the United States reached $1 trillion, this was a very serious project. To my shock, the Ministry of Finance called and simply said if they hedged their portfolio, that would make the market go down, so they requested that **Nippon Life** abandon all hedging ideas. I cannot tell you how much they lost in just the first few months.

This was the culture of Japan. The government had no actual control over private sector portfolios, but they intervened nonetheless and created the worst economic catastrophy I ever saw. Mix that with an accounting system that required only reporting a loss when actually taken, created an over-hang of stocks that everyone wanted to sell, but could not for then they would have to report the loss. We tried to help corporates as much as possible. The bailout was to issue a note, purchase the portfolio that became toxic and worth between 30-50% of its original purchase price, and the note face value was that of the cost of the portfolio. We would take the actual loss, and have whatever time it required to pay-off the note. The brain-dead US thought we were somehow hiding the loss from the noteholder, when in fact that was the entire purpose of the structured bailout that each note had to be required by law to be submitted to the Ministry of Finance for individual approval. So, in other words, the US failed to understand the nature of the notes and assumed this was merely like a hedge fund when they had no spare cash to invest at any rate. This allowed most of the corporates to get rid of the nightmare, we managed the bailout, and they got back to business. This was not hiding losses with fake derivative transactions. It was a real live workout to get rid of the toxic portfolios to try to get Japan back on its feet.

As we look at the the chart of the yen in Futures terms, we can see the major high for the yen in 1995. We achieved the traditional 2 to 3 year reaction drop reaching a low in 1998. In futures, the yen fell from 1.2625 (about 79 cash) to 68.07 (146.90 cash). This drastic decline tested at the time our long-term cash monthly Bullish Reversal at 147. This amounted to about a 54% decline.

The **Uptrend Line** is constructed by taking the 1998 low and then connecting it to the 2002 law. We can see that the retest of support in 2007 that came in June, bounced off of this support.

I have provided three **Breakout Lines.** The first **#1** is formed by using the opposite extremes either side of the 1998 low. This is thus constructed by connecting the 1997 low to the high first made in 1999. Notice how the second high formed in late 1999, followed this clean projection. I have taken a parallel **(P#1)** from the 2007 low. Notice how this has provided the support for the drop in 2008. This is an important angle that is embedded within this market that will also provide resistance. This projects critical support at 95 (105 cash) for March 2009 moving up to 101-102 (99-98 cash) by year-end. We can see a second parallel was drawn from the 1999 low. Once this was penetrated just opening below it, the yen fell sharply. **(P#2).**

The second **Breakout Line #2** is drawn either side of the 2002 low using the low of March 2001 and connecting this to July high of 2002. Notice how this provided resistance both for 2004 and the 2005 high. Currently, this project the major resistance still above the market standing at 127 (78 cash) by the end of the year.

The third **Breakout Line #3** is constructed either side of the 2007 low. He I have tied the february low to the August high in 2007. This projection have been exceeded only briefly. It is often found that such an immediate **Breakout Line** tends to be the path that the market would follow upward. At the end of 2009, this projects also to the 127 (78 cash) area.

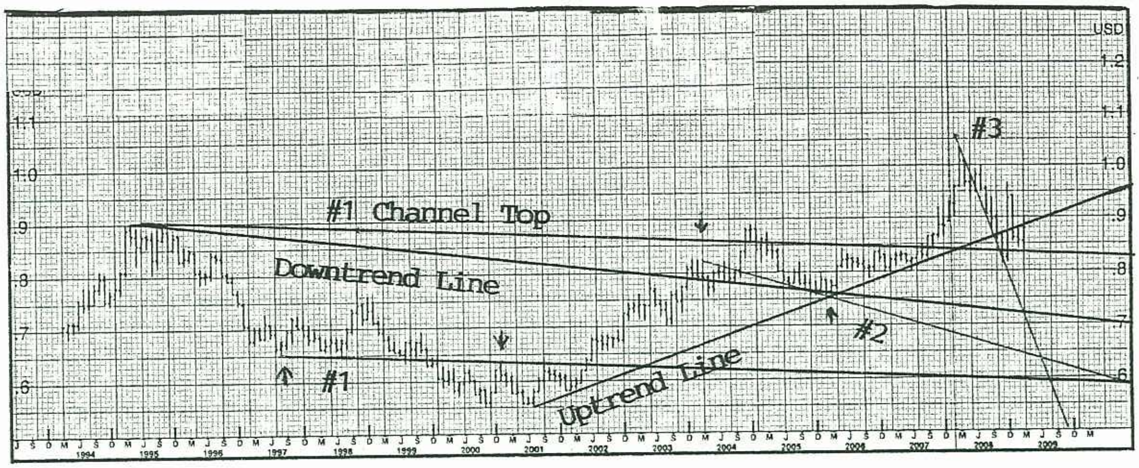
From a timing perspective, the drop for the yen between 1995 and 1998 created the traditional 3 years reaction. That suggests strongly that the low for the yen is in place. What we may yet see is a truly massive capital contraction for the final stage of the economic major decline. This implies that we could see a full blown 23 year major depression cycle pushing the economic low for Japan into 2012. We may see 2011 provide the lowest annual closing, but there is a very real danger of a Japanese economic meltdown. The insistance of the governmental to control the economy, has lead to a true disaster. Just like communists found that a central planned economy cannot be maintained, those who think by allowing the people to simply vote for the leader eliminates the dangers of Marxisim, is patently dead wrong. It matters not who is planning the economt be it a distator, oligathy, democracy or anything in between. It cannot overcome the real forces.

As long as the yen holds the 95 area on a monthly closing basis, it is still in a bullish short-term posture that could lead to new highs going into 2010. **Breakout Line #3** may provide the major high for the yen if we take-off for a 2010 high. Keep in mind, that while it is entirely possible to see the yen rise to the 130-140 level on the futures (76-72 cash), this is **<u>not</u>** a bull rally, but a capital contraction (implosion).

the Swiss Franc

Market Outlook

THE SWISS FRANC - IMM
MONTHLY NEAREST FUTURES 1994-March 2009



The Swiss franc is under serious attack. Its comparative advantage has been secrecy of banking. That is coming to an end and the US, France, Germany, and Britain, all expect Switzerland to commit suicide. There will be not much left by the time the new Marxist Western Governments get done. They could destroy Switzerland, and themselves in their greed.

The SF appears still likely to head back down to perhaps even new lows. The 26 year target is strangely in line with 2011, which is 26 years from the stupid attempt to create G-5 to manipulate the dollar down by 40% to ease trade deficits. We may see the major low come in 2011 that would also be a neat and perfect 3 year decline from the high of 2008.

We are currently holding the main channel **#1** constructed by taking the low of 1997 and connecting it to the high of 2001. Notice that we can see that once this line was exceeded in 2002, the bull market began. Now look at the sideways consolidation of 2006-2007 against the top of this channel formed by a parallel from the 1995 high. The SF kept running along the top of this channel and then broke-out. Now we have seen the SF drop back to restest this channel and once we penetrate this on a sustained monthle closing basis, we should drop sharply.

The **Uptrend Line** constructed between the low of 2001 and the first low of 2002, provided support in 2004 as this support area converged with the **Downtrend Line** constructed by connecting the two highs from 1995.

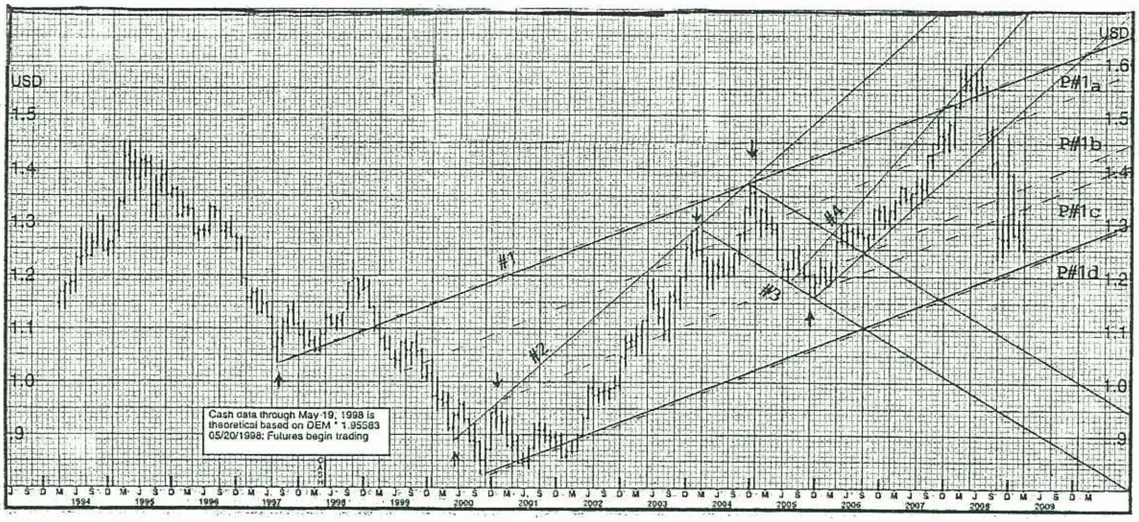
The **Break Line #2** is constructed by taking the high of early 2004 to the low of 2006. This projects support at about 61 by the end of 2009. This should not provide major lasting support, but it should provide intermediate support along the way as would additional parallels.

The **Projection Line #3** from the major high of 2008 is rather steep. This has provided a nice guide during the immediate decline. If the SF continues to follow this, we may see a penetration of the 1985 low.

The Euro

THE EURO - IMM

MONTHLY NEAREST FUTURES 1994-March 2009



The EURO has fallen significantly from the 2008 high. We must face the strong possibility that since this high came on the 37 year monetary crisis cycle calculated from the 1971 collapse of the gold standard, we could still face a major serious change in trend. When the French President Nicolas Sarkozy was first elected in 2007, he implied he was the French version of Margaret Thatcher. Yet today, he has changed colors with the wind and has no problem being photographed coveting **Das Kapital.** It is very disturbing that Europe is swinging between extremes, rather than the middle of the road to realize the best of all worlds.

The main channel is constructed by taking the low of 1997 and connecting that to the high of December 2004. This **Breakout Line #1** forms the broadest trend for the Euro. We can see that in 2008, the top was exceeded, but not sustained. One the Euro closed back below this line, it was all over. I have provided 4 parallels **P#1a-d** that form the key points within the channel. If we now come out of the bottom, it is all over. The Euro will retest par and possibily even retest the 1985 lows.

The **Breakout Line #2** is constructed over the major 2000 low taking the low of early 200 and connecting it to the immediate first high of January 2001. This provided resistance for the highs of 2004. A parallel from the Nov. '05 low, provided a nice support line for the rally and once broken, its been a sharp drop.

The **Break Line #3** takes the high of Feb 2004 connecting it to the Nov 2005 low. A parallel from the Dec '04 high gives a nice target for support if Channel **#1** breaks.

Breaking the 2008 low in 2009, will warn that we may see the collapse of the Euro into 2011 making this a 3 year correction. Just keep in mind that a strong dollar will confuse everyone. But the rise in the value of the dollar may be very bearish economically as it was during the 1930s.