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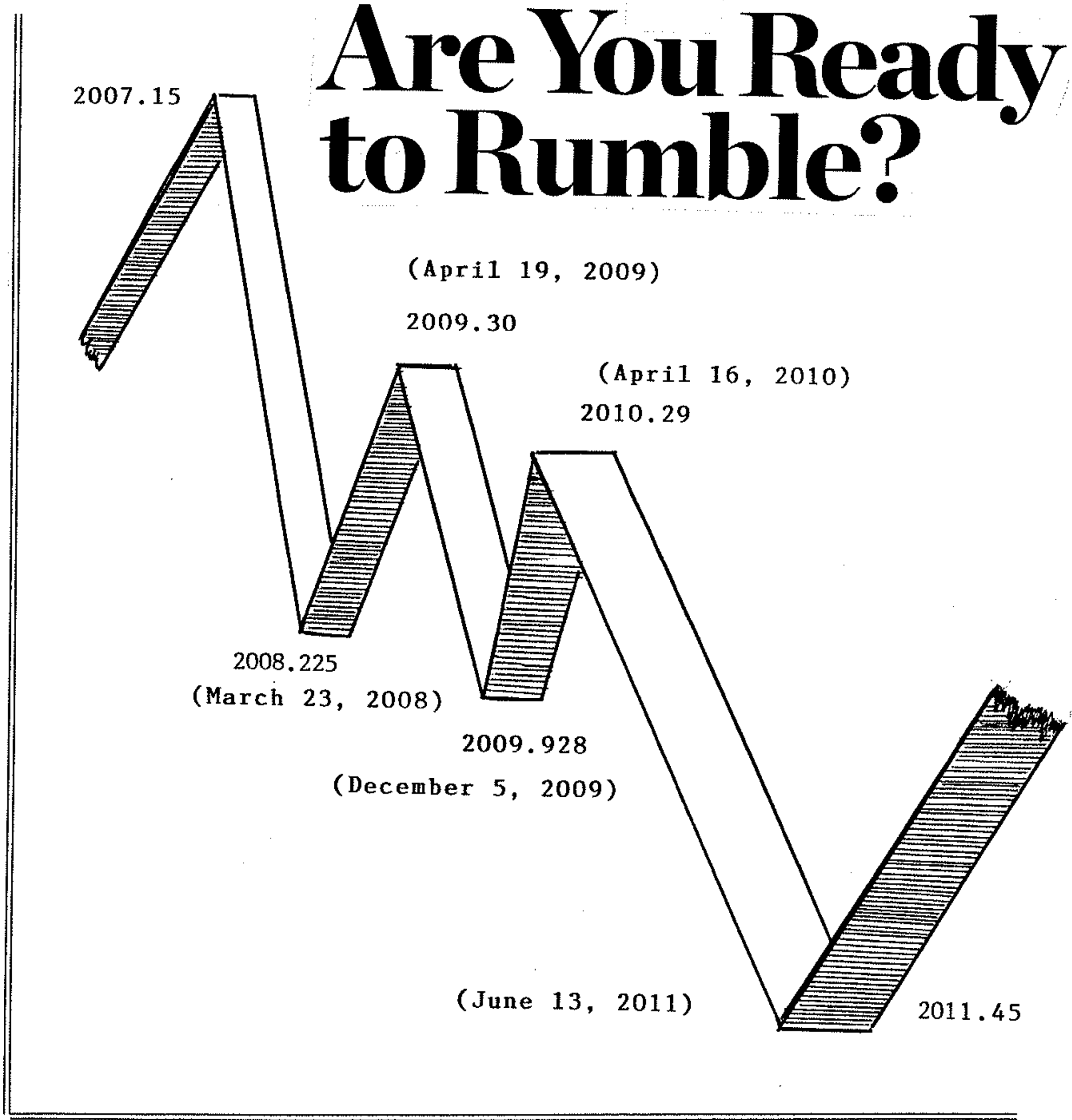
Forecasting the World

Are You Ready to Rumble?



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

 January 5th, 2011

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

I would like to thank all the former employees, associates, sources, and contacts for their ongoing support and efforts to contribute to the writings I have been able to continue through their great efforts. I would also like to thank those who have looked after not just myself, but my family, and shown them support and kindness.

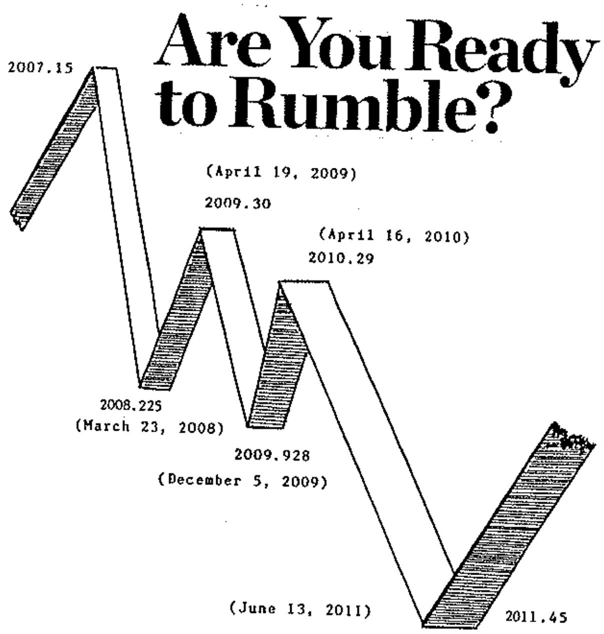
The purpose of these reports is to broden the understanding that is so vital to our personal survival. Government cannot save us, and will only assist the very economic disaster we face. This is a **Sovereign Debt Crisis** that threatens our core survival. There is no plan to ever pay off debts. The majority of debt increase is paying interest perpetually to roll over without any long-term plan. What you see in Greece and in the States, we have run out of other people's money. The socialists keep pointing to the rich. But to fund the deficits, we need to borrow now from foreign lands. We ran out of money domestically and to support the current system like Greece, we need foreign capital. But all governments are facing the same crisis and we are on the verge of another widespread government default. Adam Smith warned in his **Wealth of Nations** that in 1776, no government paid off their debt and had always defaulted. We will have no choice either.

There is no hope that politicians will save us, for they only form committees to investigat after the shit-hits-the-fan. They will NOT risk their career for a future problem that may hit on someone else's watch. There was a politician and a average man standing on top of the Sears' Tower when a gust of wind blew them off. The average man being a realistic-pessimist, immediately sees he is about to die and begins praying. The politicians, the ultimate optimist, can be heard saying **"Well so far so good!"** as he passes the 4th floor.

At Princeton Economics, our mission was simply to gather global data and to bring that together to create the world's largest and most comprehensive computer system and model that would monitor the world capital flows. By creating that model, all the fallacies of market and economic theories were revealed. The world is far more dynamic and every change even in a distant land can alter the course of the globale economy. Just as has been shown with the turmoil in Greece, a CONTAGION takes place and now capital begins to look around at all countries. We can no more comprehend the future but looking only at domestic issues today than we can do so in every other area, such as disease and the spread of flus.

We live in a NEW DYNAMIC GLOBAL ECONOMY where capital rushes around fleeing political changes and taxes just as it is attracted by prosperity. All the people who migrated to the United States in the 19th and 20th Centuries, came for the same reasons as those still coming from Mexico - jobs and prosperity. In the 19th Century, America was said to have so much wealth, its streets were paved in gold. We must now look to both the past and the entire world to understand where we now are today,

Are You Ready to Rumble?



by: Martin A. Armstrong

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

THE NEW YEAR IS UPON US and we are facing a important turning point in the development of the economic future. Like the scene from the Wizard of Oz and the little man is discovered working the levers behind the curtain that controls a fierce image of some omnipotent being, there truly is no omniscient being possessing universal complete knowledge of everything. There is also the popular belief in some commission that makes all the decisions about who shall rise and fall and what the economy will do next. The flaw behind ALL of these theories is the assumption that there are beings with power to control the world economy at will. This is truly absurd. There are people and organizations who wish they had such power and will do their best to manipulate markets and remove anyone who stand in their way. But these CONSPIRACY theories ascribe to these people, INCLUDING GOVERNMENT, (1) power that does not exist, and (2) knowledge of how to control the future that is beyond human capability.

It is like analysis. There are many who have come up with all sorts of different models and indicators to try to ascertain what tomorrow will bring. Many are very good and will show success. Then some major event takes place like the Crash of 2007 and the models fail to pick it up or work in any reliable manner. The reason for this is deeply hidden within the mystery of complex interaction. In other words, a given model can appear to be working and is the greatest invention since sliced bread. Then it fails and you lose everything just as Long-Term Capital Management in 1998, or the models used to sell bond yield enhancements that blew up Orange County, California. The deep complexity of the economy allows for short-term correlations to emerge and can run for several years before failing. This has just always been the danger behind SUBJECTIVE ANALYSIS, because everyone has an opinion.

On Tuesday, November 16th, 2010, the Wall Street Journal ran the front page story **"Bond Market Defies Fed."** They explained that interest rose despite the fact that the Fed came out with QE2 and was buying Treasuries. This sent shock-waves through Washington that no newspaper will dare report. For you see, those in government live in terror that the curtain will get pulled back and everyone will see them for what they truly are.

When G5 was being formed in 1985, I wrote to President Reagan and begged him not to take that path. His Chief Economic Advisor Beryl Sprinkle wrote thanking me for my concerns and since Princeton was the only firm with such a global model that was warning that would dramatically increase volatility, they simply said until someone else invented such a global model, they could not listen to just one firm. By 1987, they were pounding on my door acknowledging that VOLATILITY was the number one problem.

The G5 was engaging in T A L K I N G T H E D O L L A R D O W N they had believed would reduce the trade deficit and create American jobs. They would come out and state PUBLICLY they "WANTED" to see the dollar down by 40%. They set in motion a reversal of capital flows so all the funds that had come to the United States buying real estate and bonds from overseas, sold and took their funds home. They set in full motion the 1987 Crash, the decline in real estate that set in motion the S&L Crisis, and then the capital concentration led to a rising Japanese yen and rising Japanese stock market. That attracted capital from around the world and manifested into the bubble top in 1989. Once that was in motion and the crash unfolded, capital set sail for South East Asia. This began to reverse when the S&P 500 bottomed precisely on the day of the Model - 1994.25 after the 1987 Crash came precisely on the day of the Model 1987.8, the Nikkei peak 1989.95 that December and then the Asian Crisis started with the next turn 1996.4. That was then followed by the July 20th high 1998.55 and the Long-Term Capital Management collapse with the fall in the Russian Ruble & Debt. The bottom came in 2002.85 and then we ran up into 2007.15 for the bubble in mortgage backed securities.

The point is, none of this was by any shape of the imagination PLANNED! If that were truly the case, I would not have been summoned by so many government to explain what was going on. Even Beijing reached out and knew what I was saying about the total mismanagement of government and agreed.

The point is this. NOBODY is in charge! It may seem nice to presume like someone is in charge and we may not know what is going on, but someone has a plan. This is the very same philosophy often attributed to God's Will. We do not understand why he has ever allowed injustice, but it must have some sort of purpose. This same theory is applied to government or CONSPIRACY THEORIES that have involved masterminds who look down upon us all from above and torment us like the Greek gods.

There is no real masterplan. Yes, there are those who try to manipulate markets and can get away with short-term events. But nobody has the power to turn a bull market into a bear market. The government KNOWS it is just a bullshit game. Stand up, pound the chest, and TELL THE MARKETS IN ADVANCE WHAT THEY INTEND TO DO feeding inside DISINFORMATION to get traders and investors to do what they WANT to see happen. They have no real power, and provide INSIDE INFORMATION that anyone in the stock market would otherwise go to jail for up to 25 years. But when the real market manipulators want to save their own skins, they try to TALK everyone into doing what they WOULD LIKE TO SEE DONE.

Some have argued if there was no God, man would create him to feel better. In the financial markets, we have attributed those same powers to government. We do not know what they are doing, but surely they must somehow know. When it collapses, we then attribute this to a CONSPIRACY to rob us of our money and enslave us to the rich.

It may be scary. It may cause sleepless nights. It may even leave a feeling of total helplessness depriving us of all hope for the future. But the truth is THEY ARE NOT IN CHARGE NOR IS THERE SOME SECRET COMMISSION CONTROLLING THE ECONOMY AT THEIR WILL. It is just far more complex than that. The irony is that it is SO COMPLEX, what emerges is a simple realization of structure and design.

It is this same deeply rooted complex structure that causes most models to fail in the long-term. For example, the Kondratieff Long-wave has been grabbed by many and then applied to everything. This has failed not because Kondratieff was wrong, he was right. His data set was commodity based when the economy was still 70% agrarian. Just plot the commodities and you plot the economy. Where this has failed, is the INDUSTRIAL REVOLUTION has altered the economic mix. The economy is by no means stagnant. It is constantly moving and evolving into something different from one decade to the next.

The Kondratieff Wave is 52 years. Some have taken the longest Kondratieff wave of 63 years (2 x Pi). They then plot from the 1949 low after World War II and then come up with 2012. However, if we take the 1932 low and add 63 years, we come to 1995 and the major high in the yen from which the capital flows shifted leading to the collapse of Russia about 3 years later. If we add 63 yrs to 1934, we come to 1997 and the Asian Crisis If we look at the big high in commodities in 1919, we come up to 1982, which was the first big low following the 1980 high. Add 52 years to the real commodity high in 1919, and we get the birth of the Floating Exchange Rate in 1971 and collapse of the gold standard.

All of this is very nice, but it gets a bit desperate to take a 1949 minor economic retest of the 1932 low, and stretch that to the longest possible event target to make 2012 look like something it is not. They then fail to understand what drives the economy and how it functions and then project a high as if it were a bubble top coming and then everyone will once again run to cash. But what if that CASH is no longer viable for it is government that is collapsing, not a normal commodity speculative bubble? Could it possibly be the opposite outcome more akin to what happens in a collapse such as the famous German hyperinflation of the 1920s?

What we must understand is that this is a highly complex global economy. Each and every individual market has its own beat and fundamentals. They will function quite nicely and we will see inherent timing frequencies in each market that are different, such as gold has a 16 week cycle while in silver it is 18 weeks. These tend to get overpowered when global trends are converging. Thus, a model can be constructed and it will work nicely, and out of the blue, it will fail.

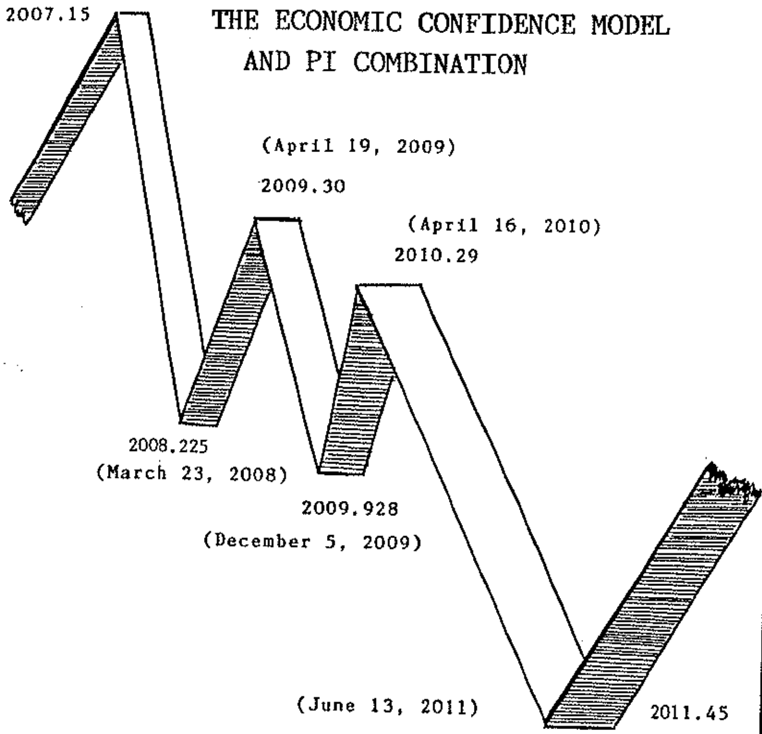
Had Kondratieff been alive today, he would have based his model on the service industry that accounted for about 70% of GDP instead of the commodity sector that was the dominant force during 19th Century. The global economy is vastly complex. It is like a rain forest with countless species that are all interconnected in some way. Eliminate one, and that effects another that may have been the food source for another. It simply becomes so complicated, it is impossible to calculate the possibilities.

The **Economic Confidence Model** is by no means a stock market model, gold, or anything else. It is the global unified frequency and we can correlate the world and begin to see that is the individual markets that align with that model BY THEIR OWN frequencies, that become the greatest receiver of capital concentration. This is why communism and socialism fail. They are working against the natural course of the economy. If everything were evenly distributed, there would be no boom nor bust, but there would also be no liberty or progress.

The entire boom and bust cycle takes place because capital concentrates. We see individual stocks take off because they have become "hot" and everyone is buying them, as compared to other stocks. As commodities rise in price, they attract other speculative capital and then we see a concentration of capital making them the new "hot" investment. Yet, there is a quantified amount of capital and it requies that concentration to even create progress.

Therefore, the **Economic Confidence Model** is the major dominant force that can be seen going back for thousands of years. Even if we look at the 13th-14th Century, we have the Sovereign defaults of England in 1294 followed by the Sovereign default of 1345 that created the Great Depression of the 14th Century. These two were 51.6 years apart. So it is NOT tied to any individual market or economy. It is the COMPOSITE of the highly complex nature of the economy. For the one thing that never changes is the passion of man as noted by Machiavelli from his study of history.

Consequently, we are now headed into a conclusion for this particular 8.6 year wave that began 2002.85 low that was the bottom in the NASDAQ, Dow Jones, S&P 500 and only some commodities like wheat. We then saw the high in 2007.15 and we now head into the low for 2011.45.



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As we now enter the final leg in this 4.3 year segment of the 8.6 Year **Economic Confidence Model**, from the **PI** target of 3.14 years from the major high, this is when the riots in Greece broke out and suddenly the prospects of sovereign default began to be widely discussed. It also happened to be when the SEC charged Goldman Sachs in a major pretense to cover-up the real events that led to TARP.

The December 2009 turning point marked the low for the dollar after the high in March 2009. The dollar continued to rally into June 2010 before retesting that Dec. 2009 low. Gold made a spike high in December dropping Feb '10 and moved sideways until the PI turning point and then took off to new highs thereafter. Platinum made its lowest weekly close in Dec '08 and rallied into the PI target before a spike drop from $1700+ to $1400+. The Nikkei 225 crashed into Dec '09 and rallied into Apr. '10. Everything tended to trade around these points. We should see the same general shifts in trend around the June 2011 turning point. Somethings will be at their highs, while others should be at a low. That is what a turning point is - a change in directional trend.

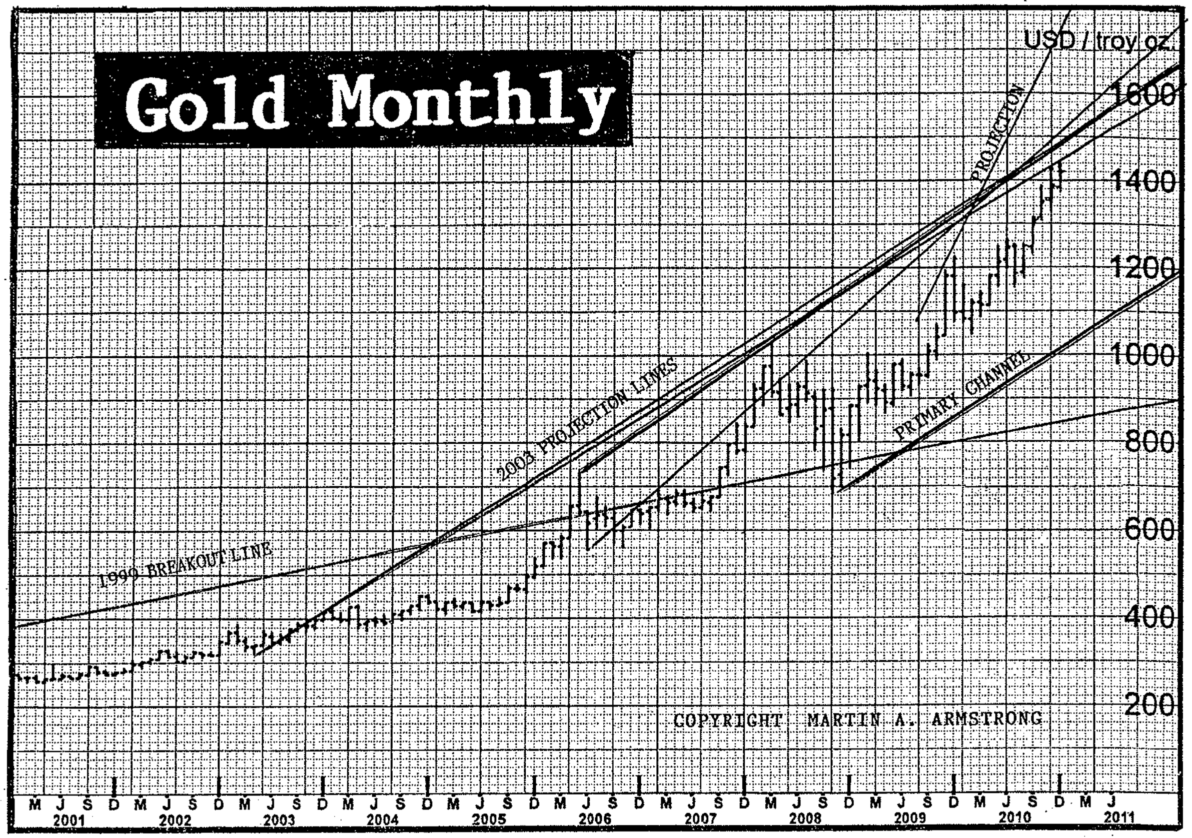
Even the Swiss Franc continues to be attracted at this time. It reached a high on October 14th, 2010 and that was precisely 26 weeks from the PI target.

So what does this coming LOW on the **Economic Confidence Model** actually mean? We are facing a TURNING POINT that was as vital as the change in direction we saw in 2007 or back in 2002 when this 8.6 year Wave had begun. This means that the confusion that has prevailed, will lift and we will begin to see the reformation of a trend. There is no risk of a 1929 collapse to new lows. Those who were screaming the sky was falling were dead wrong for the 10,000th time. As I have tried to make very clear, <u>THERE WOULD BE NO SUCH GREAT DEPRESSION WITH THE DOW JONES FALLING TO 2000!</u> To create such a trend required the dollar to be a viable investment. People had sold tangible investments rushing into cash. That correlation was IMPOSSIBLE!

Our global model had more than 35,000 variables. Each was correlated individually against the entire sample. It was HOW all the markets were aligned that is the key to understanding truly the driving force in the global economy. This is why I say you can model a individual market, but at some point that model will fail when it is overpowered by the entire global economy. It will revert back to its individual frequency once the convergence passes.

Therefore, you still have individual models that are valid. Pattern recognition along with technical analysis. All of these things are separate and distinct. What this **Economic Confidence Model** does is it brings that complexity of the global economy into focus. At the precise day of the high on 2007.15, the Real Estate index peaked. But that precise day also called the high in the Japanese Nikkei 225. The real estate market lined up perfectly with the 2007.15 turning point and that was indicating the CONCENTRATION OF CAPITAL.

Therefore, just as the S&P 500 bottomed precisely in 1994.25, we will need to focus on what lines up here in June with 2011.45. We will thereafter begin a new trend into 2015.75. This next cycle is going to be a profound change in politics. We will see a significant change in the West as is the case in China. By the time we complete this next 4.3 years, the world will NOT look the same. The complete political structure will collapse, but not until 2032.95. What the world will look like is hard to say. Perhaps it will be 2032.95 that will mark the next key evolutionary step in the development of the economic process.



G O L D - T H E L E A D I N G I N D I C A T O R

GOLD is the true leading indicator even in the face of so many that hate what it is doing. As we can see, GOLD rallied right up to the 2003 PROJECTION LINE. It still has not reached the top of the PRIMARY CHANNEL, which that now stands just slightly below 1500 in January. When I first put out these charts showing the PRIMARY CHANNEL, I received a few letters saying I was nuts and gold would see $400 before it would ever rally.

I have stated numerous times that this PRIMARY CHANNEL is the <u>NORMAL</u> trading projection. It was by NO means extreme. I warned that as long as GOLD traded within this main channel, there was nothing unusual taking place. The bias against GOLD is so pervasive for it reflects a decline in the confidence in government, that people want to demonize GOLD for they fear what it is pointing to.

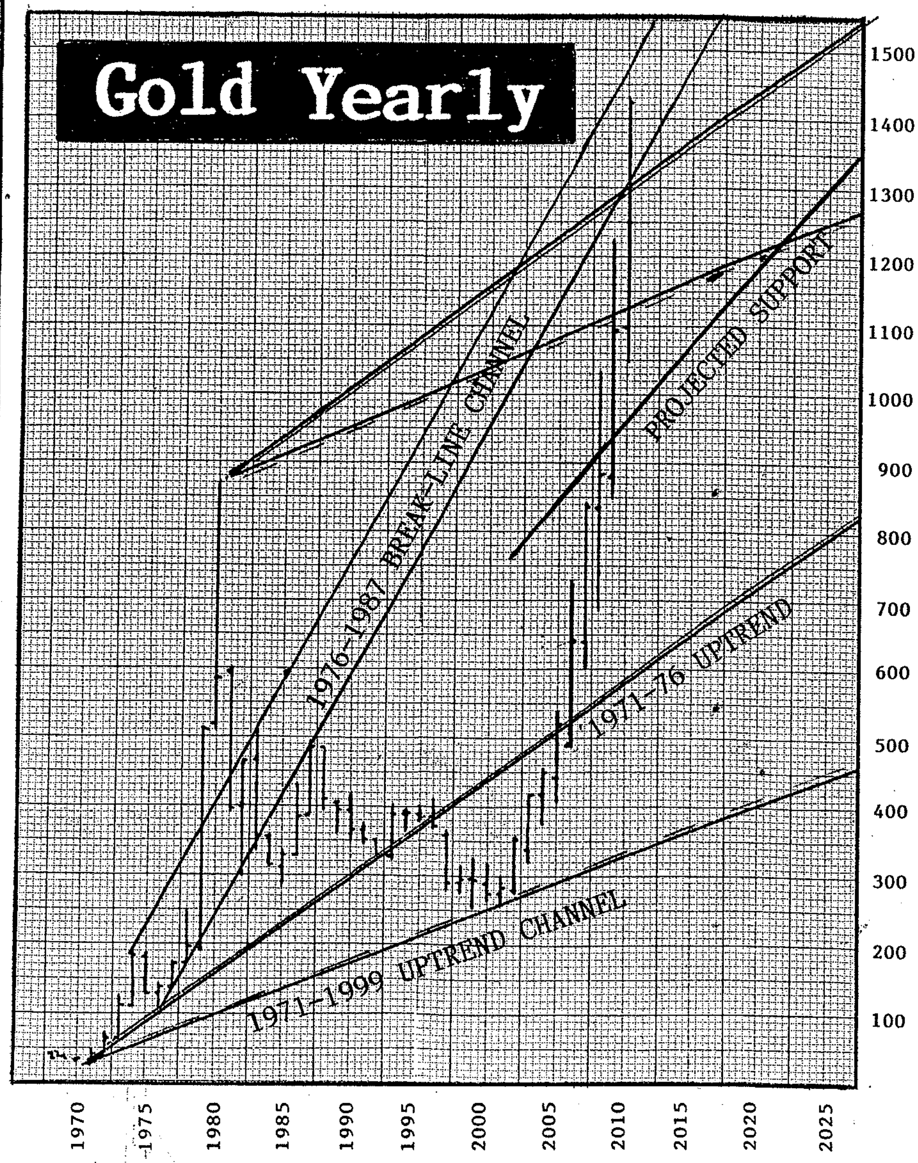
I have also warned that we were headed into an 11 year high in 2010 from which there is often at least a pause in trend. A weekly closing below 1372 will warn of a retest of support that lies at 1348. A monthly close below 1372 will warn of retest of 1235 with the major support down at 1150. By the time we reach June, the bottom of the PRIMARY CHANNEL lies at the 1100 level.

It does not seem likely that we will blast out the top of this PRIMARY CHANNEL jumping 1700 and falling back to support at the top of the channel 1500 just yet. If we see a monthly closing below 1372, then we have at least a pause in play. If January exceed the December high and then closes lower, this would also indicate a possible temporary high.

The major support during 2011 lies at 1045-1032. The long-term support remains well below the market at $600 and only a Yearly Closing below $600 would signal a bear market development was possible. This does not seem even remotely likely and a retest of the 1045-1032 area would probably be a buying opportunity, yet that may come a bit higher at the 1100 level.

Ideally, a December high should be followed by a sideways to lower trend into June with March being a key target. It is possible for June to be opposite of March.

Here I have provided the main channels on the Yearly Chart in Gold. The 1971-1999 UPTREND LINE CHANNEL with its parallel from the 1980 high rests at 1100.56 for the 2010 session and this rises to the 1108.08 level for 2011. By the end of this cycle in 2015, it will be at 1138.16. This CHANNEL should be the key support level. Dropping back to retest it and bouncing off thereafter, should be a technical buy indicator.



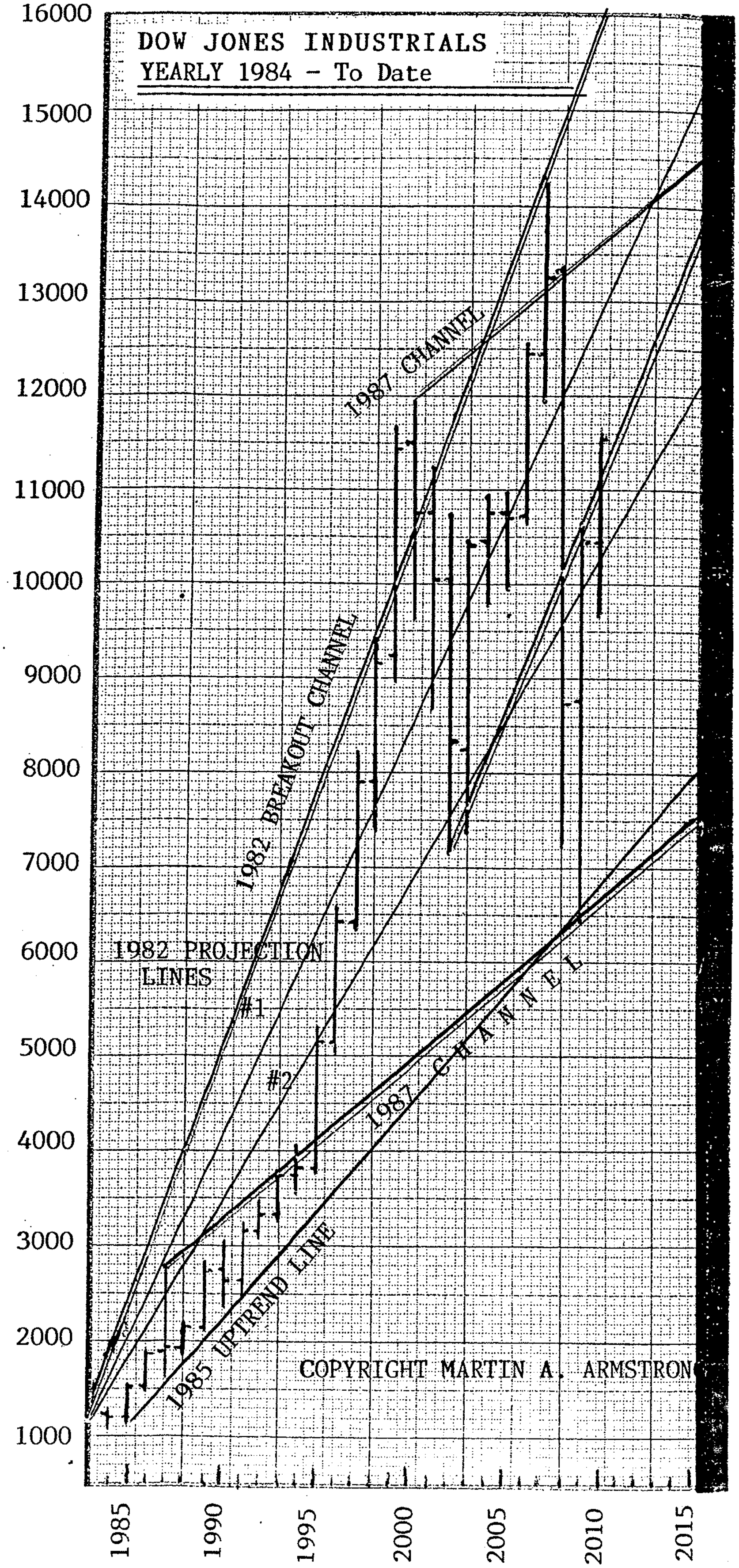
The earlier structure was the 1971-1976 UPTREND LINE CHANNEL. It was this CHANNEL that held in the 1992-1995 time period. When 1996 closed below it, this is when we warned new lows going into 1999 were likely. That materialized with the low at $252.50. The main Yearly Bearish Reversals were then $250 and $192. It was nearly a perfect test of support. The low end of this CHANNEL rests at 566.4 for 2011 whereas the top stands at 1285.44. This CHANNEL projects out into 2015 at 1338.40-619.36.

The 1976-1987 BREAK-LINE CHANNEL rests at 1529.77-1365.37 for 2011. Technically, this would then to support the view that a weekly and monthly closing BELOW 1372 would warn of a retest of key support that technically will lie at 1108, 1285 with system key support lieing at the 1033-1045 level.

From a Technical perspective, a decline back to retest the 1971-1999 CHANNEL would be a normal trading pattern, and very bullish if the top of the CHANNEL holds. Holding the top of the 1971-1976 UPTREND CHANNEL would be very bullish and this would warn that we may be in store for a very big rally. This would tend to be possible if 1372 held on a monthly closing basis. A weekly closing below 1372 would not be the end of the world. It would simply signal that a pause in trend is likely at this time.

1980 was 11 years up from the lowest yearly closing, which was 1969. The intraday low came in 1970 at $34.75, but that year then closed on the high. 2011 is also PI (31 yrs) from the 1980 high. This opens the door for a very important low in 2011. This is a very rare opportunity for a low. Clearly, a low that holds the top of that 1971-1999 UPTREND CHANNEL will be exceptionally bullish. If this happens, then a simple year-end closing ABOVE 1032 will be a BUY SIGNAL pointing to a dramatic rally into 2015-16. It looks that 2015 would be perhaps the highest yearly closing with the intraday high forming in January 2016.

Therefore, 2011 will be the real test of this long-term bull market. We should hope for a core retest of support perhaps as some optimistism returns that government may get things back on track. Which track and where it leads is another story. After June, watch the MUNIS and states.



DOW JONES INDUSTRIALS FROM 2011 ONWARD

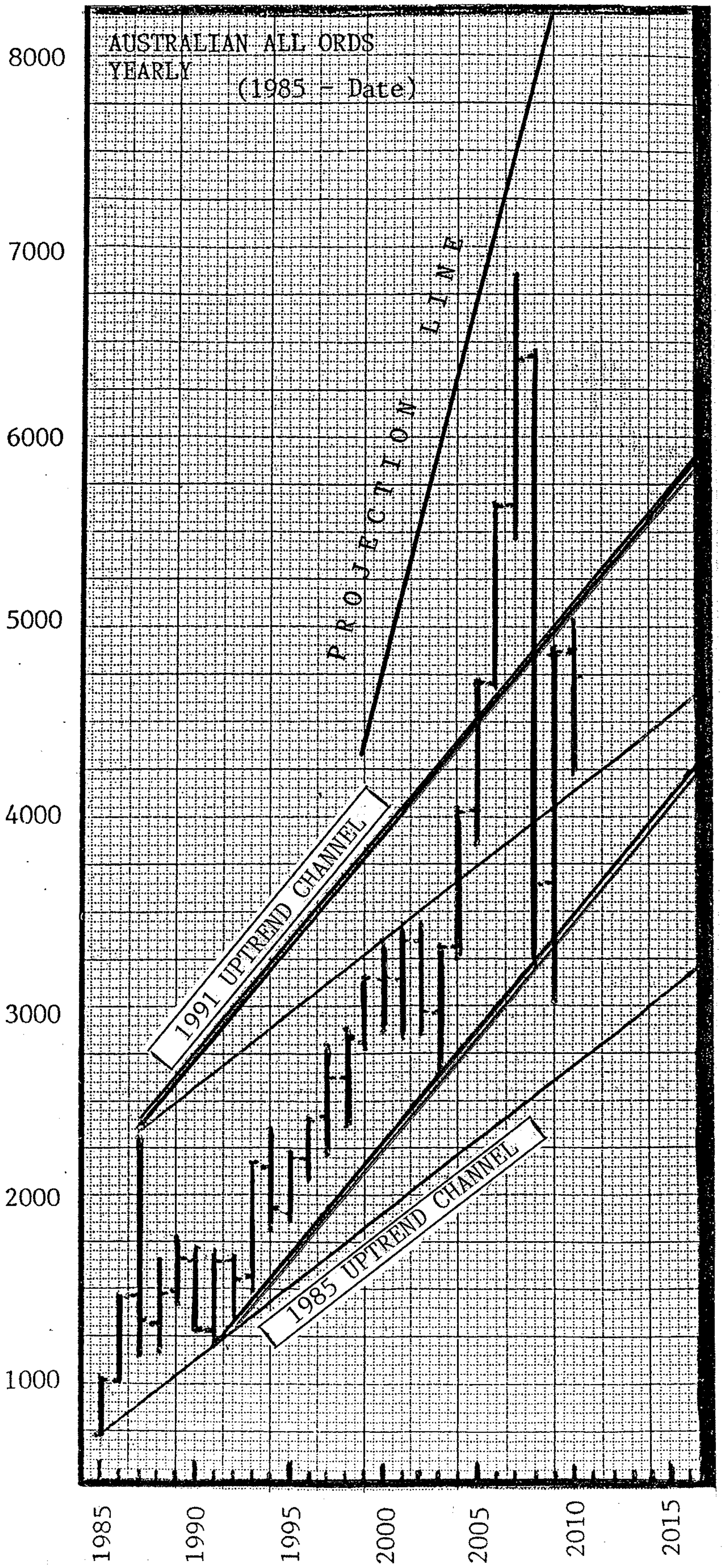
The Dow Jones Industrials closed above 11,000 and back into the 1982 BREAKOUT CHANNEL, which is certainly a long-term bullish indicator. We did not get the immediate buy signal on a yearly level, and now resistance is forming at 12575--13350. The primary support in 2011 will lie at the 10600 area followed by 7300, insofar as the math indicates.

The two primary channels are the 1987 and 1982 BREAKOUT CHANNELS. We had punched through the top of the 1987 Channel, but we fell back and nearly closed on it. 2008 opened nearly unchanged and collapsed thereafter. The 1982 BREAKOUT CHANNEL has done what it was suppose to - provide resistance more so than support. 2008 fell through it and then 2009 rallied right back up to it and closed just below. 2010 rallied back into the channel and nhow now closed back into its scope. The bottom of the 1982 CHANNEL for 2010 was 11504.67 and we closed at 11577. For 2011, this is now 14819-12045. Therefore, it will be still offering resistance until we now accomplish a monthly closing ABOVE the next key level - 12842. This is our next key area that must be overcome to signal a continued uptrend short-term. There will also been system support at the 9450 level for 2011.

The 2007 high was also 25.8 years from the 1982 low when this breakout began when the DOW got through the 1000 level thereafter. The consolidation on the yearly models projected for 2 years taking us into 2009. Then 2010 rallied and avoided the doomsday forecasts of the end of the world. Now it looks like we may have a PANIC CYCLE in 2012 (HIGH VOLATILITY).

The weekly closing support lies at two key levels 10992 and 10711. As long as they hold, we should try to test 12000 level. Key months to watch are Jan-Apr/May-Sept. The key will be if Jan can close higher than Dec and 12842 has to be exceeded on a monthly basis to signal the breakout has begun. For now, watch the 12045 level.

Capital is shifting. The sovereign debt crisis is still brewing with the worse yet to come. That is starting to appear for 2012. The smart money will begin to shift from debt to equity. The Dow shows the big money, S&P 500 the broad market, and the NASDAQ retail.



AUSTRALIAN ALL ORDS YEARLY OUTLOOK 2011 FORWARD

The Australian All Ords closed the year at 4745. That was short-term still bearish, yet neutral long-term. As we look ahead into 2011, the technical view on the annual chart showed that the 2008 collapse fell and held the bottom of the 1991 UPTREND CHANNEL. 2009 penetrated the bottom of that channel and then the ALL Ords rallied back up to the top of that Channel showing some incredible strength. 2010 continued to show that strength as the market exceeded the '09 high yet did not punch through the top of that major channel. The lower closing of 2010 under the close of 2009, warns that we could still test the top of the 1985 UPTREND CHANNEL.

Looking at the past year 2010, the All Ords made the high for the year in April '10 and the low in May '10. This was incredible volatility in a short time frame. The monthly closing resistance stands at 4885 and only a monthly closing above that would signal new highs ahead.

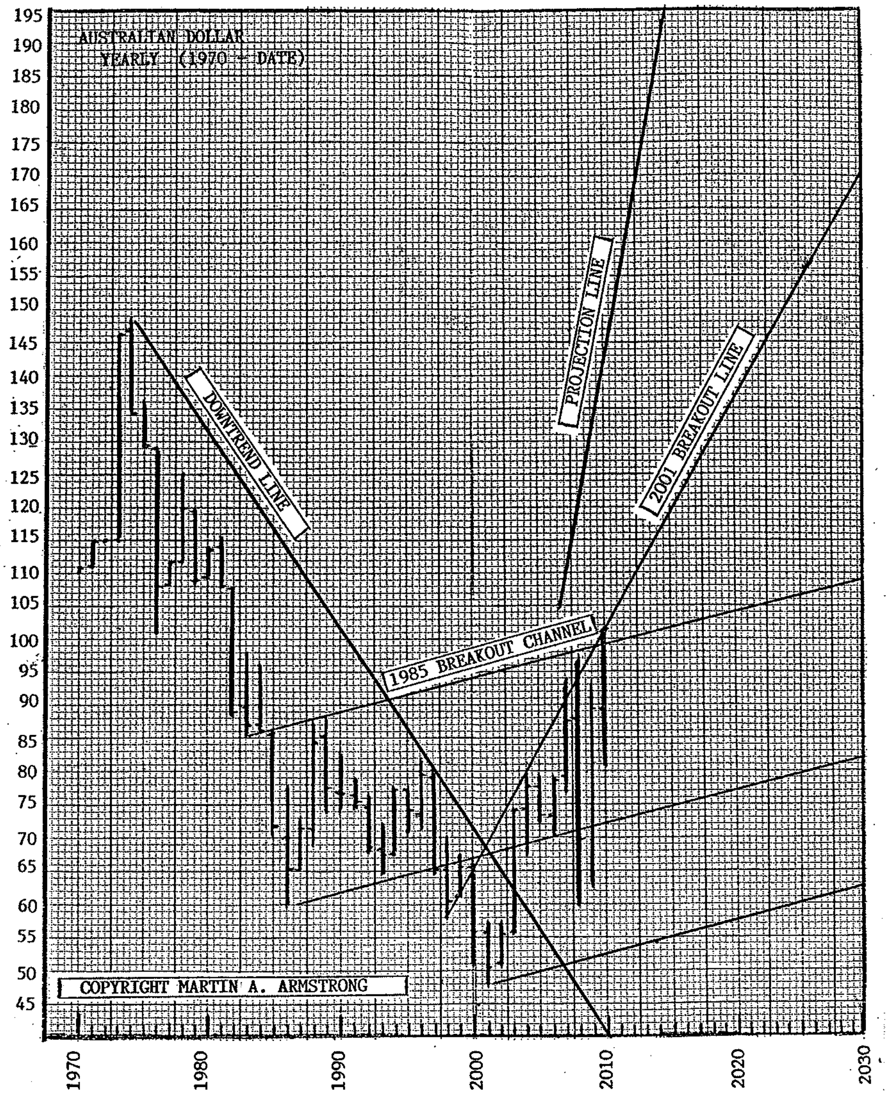
The main support during 2011 lies at 3320 followed by 3200. The pivot point will be 4695 while resistance is at 5600 and 5475. We closed 2010 just above 4700. Techincial support during 2011 lies at 4100 level followed by 3600-3700.

Cyclically, there appears to be a trend emerging after June 2011 that should last into the next high 2015.75. Therefore, a retest of support that holds within the 1991 UPTREND CHANNEL, suggests that once we then move back above this channel, we should be on our way to new highs. This will be suggested if we obtain a annual close above 5482.

For now, watch the 4250 level. A monthly closing BELOW this area will be the signal that a drop under 4,000 is likely to retest the bottom of the 1991 UPTREND CHANNEL. Nevertheless, the long-term prospects have not yet changed and everything still appears to be pointing sharply higher into the next high in the **Economic Confidence** Model due in 2015.75

AUSTRALIAN DOLLAR
YEARLY OUTLOOK 2011 - FORWARD

The Australian dollar is in a long-term bullish mode. It had closed 2010 at 101.42 against the US$. This is the first annual closing above Par since 1981. The major high remains in 1974 intraday at 148.80. The highest yearly closing was 1973 at 146.00. With commodities rising, China is now poised to become the new Financial Capitol of the World, Australia remain in the right place at the right time.



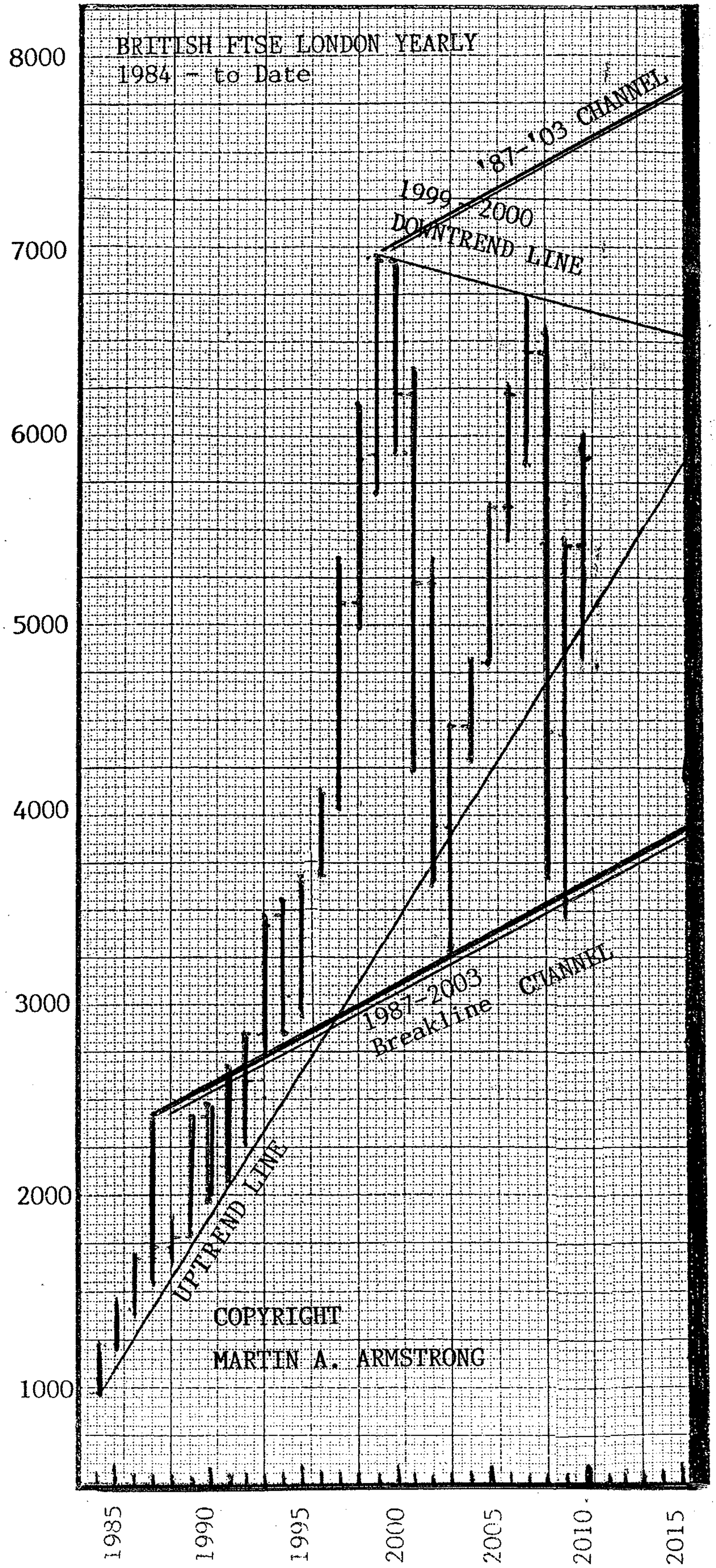
The USA is clinging to its fleeting position as the leader in capital markets. Just as it was Britain that lost that title to the USA in the aftermath of 1914, the USA is doing the very same thing. It cannot see what it is doing and the political chaos is keeping things in crash mode. The USA will be unable to cut the spending to reverse any trend.

At this stage in the game, only a yearly closing back below 70 would even remotely cause the rising A$ to reverse trend in any serious mode. The major overhead resistance stands at 12900 and 13600. There is additional key resistance at 108 and 116. Once we see an annual closing above 136, lookout, for the A$ will then be on its way to eventually test the $2 level. Keep in mind that sometimes dramatic rallies of this nature are more so because it is worse just about everywhere else. This could be stopped only with serious economic reform. But there is no political will in the WEST to take this type of reform seriously.

The A$ decline was 27 years. This is a very important timing frequency (8.6 x PI). Such declines are historically significant for when this frequency appears, this opens the door for a major shift that could lead to a broad bull market of 51.6 years. We had a 27 year decline in real estate from which a rally into 2007.15 took place. This could be a very important shift for Australia that will be dramatic.

The near-term support lies at 8740 level and only a monthly closing below this area would suggest a pause in the uptrend. There will be initial support also at 9760. This is the pivot point for the year 2011 and as long as the A$ stays ABOVE it, we are still near-term bullish.

Monthly timing models still show June as a possible turning point for the year. A low at that time that retests support and hold, may be very bullish thereafter going into 2015.75. In fact, there is a strong potential that the big high in the A$ could come in 2018 on the half-cycle after the 2015.75 turn. This would also suggest that the down-leg after 2015.75 could be where the WEST politically crumbles.



GREAT BRITAIN
FTSE YEARLY OUTLOOK 2011

The FTSE closed the year 2010 at 5899.9, not to far from the high for the year. The British are cutting just about everything they can right down to trash collecting in some areas. Of course there have been serious student riots. It is unlikely that Britain can trim its budgets deep enough to actually save the nation. Nevertheless, it is not the end result that matters at this time, but simply the perception.

The fact that the 1999 high at the 6950.6 level remains the all time high and the 2007 rally shows a high at just 6754.1, this actually opens the door for a more positive long-term outlook. It means this market did not get overheated and we are still in a position to see a rally up to the 8,000 level in the years ahead and possibly even a good try to reach 10,000.

The pivot point in 2010 was 5365 and only a closing below that would have warned of a 2011 low. Since the 2003 low was 3277.5 and that held in 2009, which only fell to 3460.7, we are still in a coiling sideways pattern.

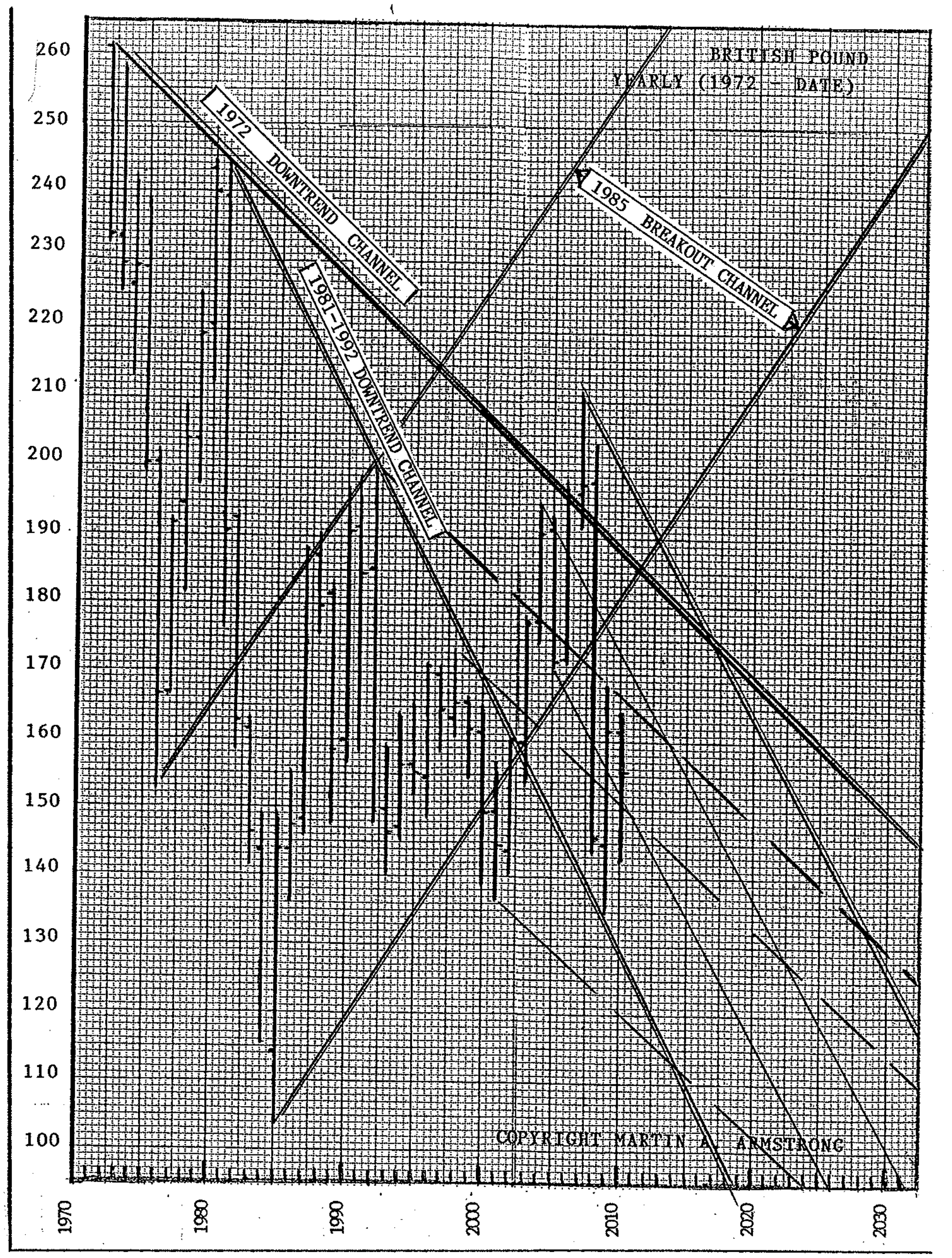
The Monthly Buy Signal requires a close back above 6377. The critical support becomes last year's low at 4790 and a pentration of that is required to suggest a retest of the 2003 low. Yet addition system support lies at 4520.

For 2011, the pivot point has risen 5365 to 5465. This is very close to the current market. A monthly close below 5465 will warn of a short-term correction.

There is an inherent danger within this market. If there were a collapse with a year-end closing for 2011 BELOW 4599, this would warn of a drop into 2015/16 and would imply serious political problems. A 2011 year-end closing <u>ABOVE</u> 6272 will point to a rally into 2015/16. Given the economic prospects for the world, it still appears a high should unfold in 2015/16. The only development that would reverse that trend would be GEOPOLITICAL in Europe.

BRITISH POUND
YEARLY OUTLOOK 2011 - FORWARD

The British Pound closed the year 2010 at 155.76. This was a neutral closing at best, while the overall technical picture is still not bullish. During 2011, the main resistance will stand at 17200 level and support at 14300. Pivot resistance stands at 160.50 and pivot support starts at 14900 with 2010 low at 142.27 only in fact confirms that 14300 is a key level for the year.



The overall technical view for the Pound remains bearish. The only way to get a rally into 2016 on a sustainable basis will require a annual close above 168. While a low in June 2011 will be a opportunity for the Pound to go up into 2016 turning down thereafter into 2025 for the final low against the dollar, the 1985 BREAKOUT CHANNEL will provide the resistance to any rally. This is at the $2 level at that time making that perhaps the best we can expect for a retest of the old $2.40 high. The top of the 1972 DOWNTREND CHANNEL will also offer resistance to any rally. Keep in mind, that a rally into 2015.75 that fails to get above the 2007 high will be the kiss-of-death for the UK and we will see the Pound fall well below the PAR level to the US dollar.

The 1981-1992 DOWNTREND CHANNEL also made a key support for the 2009 low. While that was interesting support, the mid points are at the the same system level of resistance - 16800. The overall picture for the POUND is most definately BEARISH long-term. The entire British experience is in its final decline. The major peak in 1913 is clearly the all time high for the British Empire. Before Britain is capable of shaking this legacy, we are looking at 2025 and some very hard times on the horizon.

Everything is still pointing down. By no means do I speak this as some biased American. Britain is one of my favorite spots and I have many friends there. I believe Britain can be saved and I believe it is a culture that should be saved. But unless Britain is going to truly embrace some new economic ways, it may be very difficult to accomplish that end.

On a monthly basis, the Pound gave a sell signal at year end. A monthly closing below 142.75 will also signal new lows. This lines up with the 2010 low 142.27 and the 143.00 level on the yearly level. Clearly, this area is incredibly important.

If January closes lower than December, we may see the next low form in April. The next turning point should be June/July 2011 followed thereafter by a target in January 2012. Therefore, the British Pound is a key market to watch this year.

NIKKEI 225 JAPAN OUTLOOK

The Nikkei closed at 10,228, holding the major sell signal at 8197 that would have pointed to a possible low in 2011. It did fall below 9000, but she rallied back up. Nevertheless, on the broader models, it still closed BELOW 10300 and that keeps the Nikkei in a bearish position. We may yet see 2011 provide the lowest yearly closing with the intraday being pushed into 2012.

The Japanese outlook is very dim The debt load is far too great and this is not going to be resolve favorably in the short-term. If we can get a new low under the 7000 level in 2011-2012, then there is hope for a rally into 2016 as capital in Japan starts at last to move independent, and free of government dictates.

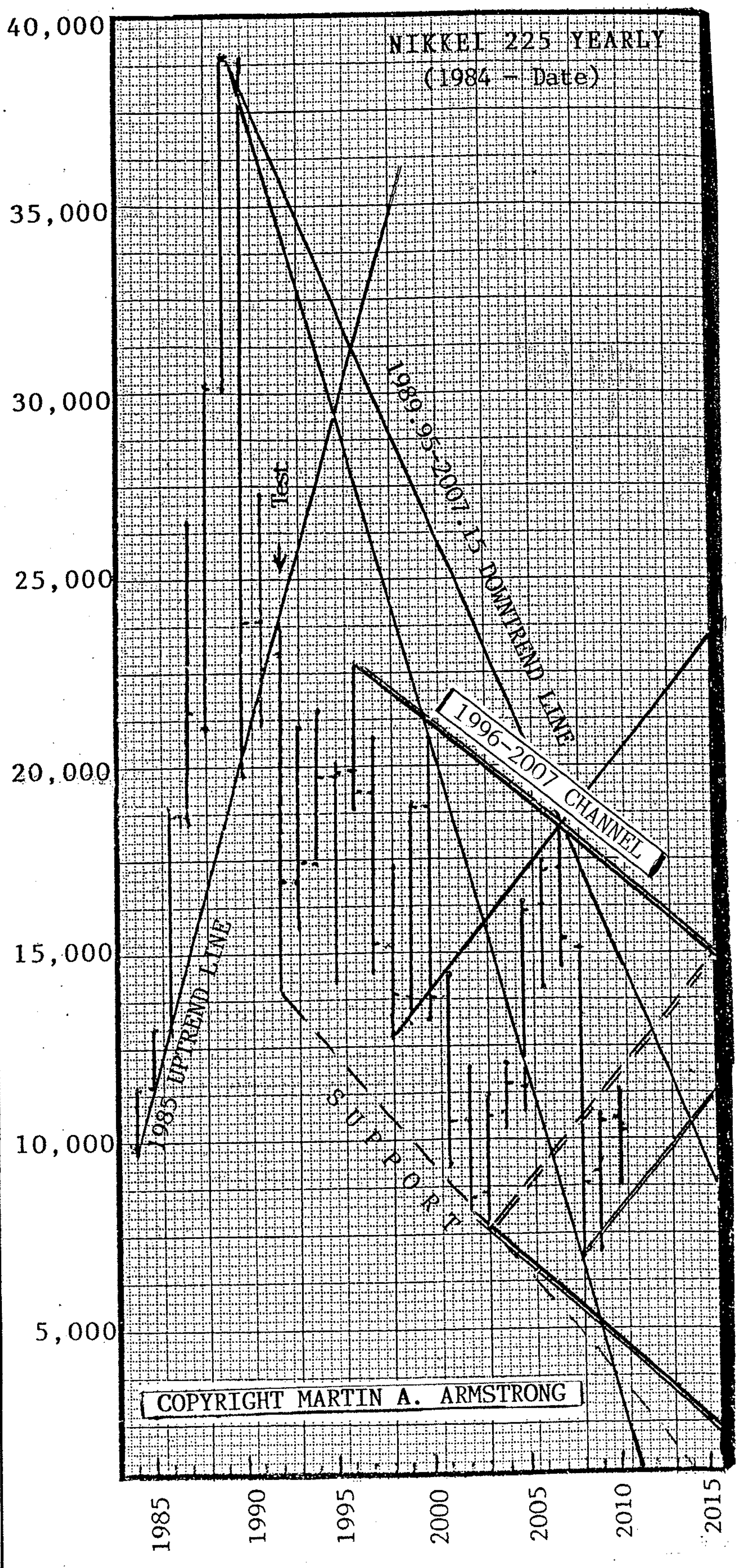
Resistance will now form in 2011 at 12882. The key technical indicator at this time is the 2003 CHANNEL. The bottom of this short-term channel lies at 8830 for 2011 and 9442 in 2012. This is the critical big technical support to watch. If we start to get a monthly closing below it, the trap door will begin to open for a final decline into 2011-2012.

Initial support lies at 9716 for now, but this will begin to fade rather quickly. Therefore, the immediate trading range is 12882-9716 within which the Nikkei is just in a neutral position near-term.

The Japanese yen still remains very strong and the prospect of new high still remains on the horizon. The Japanese Gov't can jump up and down all it likes and tell traders WE WILL INTERVENE, but they really have no power behind that bark.

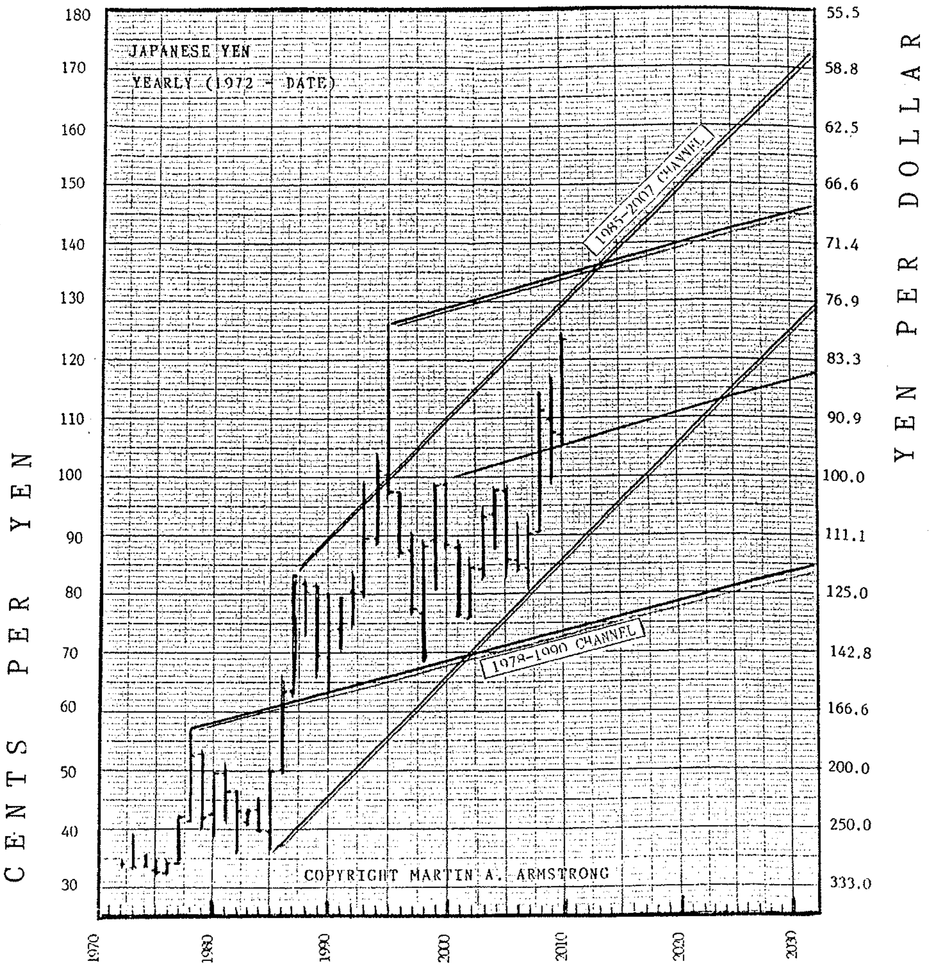
The 1996-2007 CHANNEL stands at 16680 on the top while the bottom lies at 4363. Addition support lies at 5779 within this channel while resistance stands at 13049. By 2012, the support will lie at 5374. If we see this type of decline, then the odds of reversing this bear market will shift to the buy side.

It has been a long-time coming. But Japan has to learn how to shed that gov't power that dictates what the free market is going to do. In many respects, that is the same reason why communism failed. Japan has that potential for a new age. But it has to start acting the part independently.



JAPANESE YEN
YEARLY OUTLOOK 2011 FORWARD

The Japanese Yen closed 2010 at 123.20 on the Futures or 81.16 Cash. The 1995 high in the Yen was 126.25 on the Futures or about 79.20 Cash. We have yet to penetrate that level just yet, however, the Japanese government has still not learned its lesson and is jumping up-and-down warning it will intervene to push the Yen back down.



The Japanese Gov't has done more to screw up Japan than is conceivable. Their attempt to manipulate the markets has led to a complete disaster and has created not a **LOST DECADE**, but a **LOST QUARTER CENTURY**. From the outset, the Gov't has been just insane trying to dictate to the markets. They blocked major corps in 1989.95 from hedging believing that if they protected themselves that would make the NIKKEI 225 go down. They lowered interest rates to virtually ZERO trying to then stimulate the economy and all they did was create the **YEN CARRY TRADE.** If people see no opportunity to invest, they will not borrow.

Now, the Japanese Gov't is back at it jumping-up-and-down in a yellow rain coat screaming that they will INTERVENE to force the Yen down. They are doing nothing different than from their strategy since 1989.95. TALK THE MARKETS INTO DOING WHAT THEY THINK IS BEST! If they just for once understood how markets actually trade, they would know that Japan is not going to REVERSE until that 1995 low in the dollar (HIGH IN YEN) is penetrated.

There are two primary channels to watch. The first is the 1978-1990 Channel that gives us upport at 7162 at the bottom and 133.20 at the top (75.07 Cash) during 2011, moving up 133.60 (74.85 Cash) for 2012. This becomes a key target to watch. A spike rise in the yen will signal the final capital contraction is then complete. This lines up with the 1985-2007 UPTREND CHANNEL that points to the 130.00 (76.92) level in 2011 and 132 in 2012 (75.75 Cash).

From a timing perspective, 2011 should be the first opportunity for a major high in the Yen. This should be intraday, but it could be on a highest annual closing with the intraday high spilling over into 2012. So far, 2010 has produced the highest annual close. 1995 made the intraday high, but the closing for that year was 9773. Charting only the close, and we have made new highs. We should see high volatility in Feb/Mar 2011 and June 2011 looks like it could provide the big turning point for the year with a small spill-over into July 2011. Frustration in Japan is running high. This stupid type of talk has prolonged the entire correction process and the danger still remains that Japan could undergo even more political change as its social network declines.