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GOLD & THE NEAR TERM

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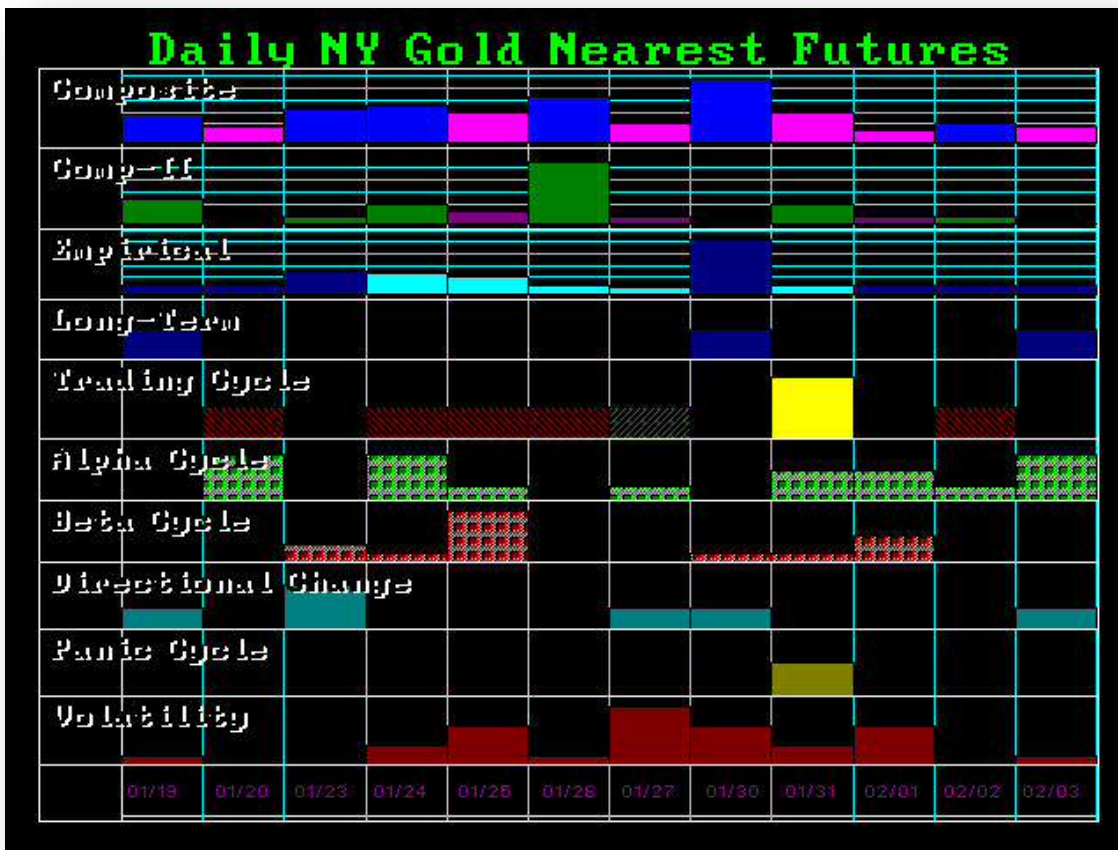
old closed year-end for 2011 in a positive light above \$1434 suggesting that it is not ready to collapse into dust. The longer-term levels are still in a bearish mode showing that we are still in a correction phase. This is generally being caused by the fact that we are still in a deflationary mode that is the hallmark of **ALL** economic declines where asset values decline and the purchasing power of money rises – *i.e.* the housing collapse. The hyperinflationists fail to understand that this is what makes a depression. The values of assets become bloated and when everyone wants to sell, the demand shifts from assets to cash regardless what it might be then.



The critical key to understanding **HOW** the economy functions is this perpetual shift between money v assets – **PUBLIC v PRIVATE**. Simply put, **DEFLATION** prevails as long as the demand for cash exceeds that of assets. The key to the shift in this trend will be the shift from PUBLIC assets (CASH) back to (ASSETS) **PRIVATE**. We face the beginning of this shift with the **BIG ROLLOVER OF 2012**. In other words, we are looking at €600 billion in debt of Italy and Spain for starters that needs to be rolled over this year 2012. This is setting in motion the rise in interest expenditures in the future that will blow out the deficits that is so necessary to create the “inflationary” trend that

begins **ONLY** when the demand for cash shifts back to assets. This is the trend we need to see develop in Europe that is a leading indicator to the USA trend. It unfolds **when** we begin to see interest rates **rise** that signals the shift in demand from **PUBLIC** back to **PRIVATE** assets that many will perceive as inflation and the breakout will then unfold in gold at last. Those who think gold will drop to its 1999 low based upon the Great Depression ignore the fact the USA was not the debtor then but the creditor much as China is today. So there will be **NO** deflationary collapse any more than there will be a hyperinflationary blowout. History repeats, but more like a Shakespearian play – the actors keep changing with time.

In this economy journey into the future, we must understand **TIME** like never before. Everything we do is a matter of **TIME** and how that will be reflected in **PRICE**. Oscillators can help us see objectively when something is over-bought or over-sold. Yet we still need to understand **TIME** and its role in the marketplace. We can look at the shape of a wave and try to ascertain how long each segment will take. However, we return to the age old problem – subjective forecasting. This means we are at the mercy of personal opinion. As they say, opinions are like assholes – everyone has one. Using technical analysis in the same fashion as to predict the future based upon the patterns leaves us in the same subjective analysis dilemma. To get anywhere, we need the cold light of day without subjective analysis. Two people look at the same cloud will often result in one seeing patterns and the other nothing but a cloud.



The economy unfolds through the dynamic nature of the markets. While the timing periods remain unchanged, what does unfold depending upon the dynamic structure of the economy is what we call **Cycle Inversions**. This means the timing targets do not change, but what should have been a high can invert into a low. But the *“turning point”* remains that – a *turning point* rather than a specific high or low. In the **Forecasting Array** presented here, the **Alpha Cycle** in GREEN is contrasted with the **Beta Cycle** in RED where the former is derived from highs and the latter from lows. The **Trading Cycle** is plotted in Red or Green ideally suggesting that this is a low (RED) or a high (GREEN). However, you will see a **YELLOW** bar for January 31st, 2012. This represents a conflict where both projections for a high and low converge on the same target. This signals a high probability of a **Cycle Inversion**. Now look down in the **Forecasting Array** and you will see a **Panic Cycle** due the same day. These are often outside reversals to the up- or downside, but can just be a change in trend.

In the December 15th article, "What's Up With Gold", it was stated: *"As it currently stands, a decline into January is the most likely course of action. We can see an intraday low form in February, however, January is still likely to be the lowest close."* There is an important difference between a *“Turning Point”* and a *“Directional Change”* target. The former tends to be a high or a low whereas the latter is when the market begins to change direction and that does not require it to be also the high or low of the move.

The primary objective of creating a regular model of any market is to **ELIMINATE** the personality that is involved in forecasting or trading. Even investors encounter the same problem. Too often the EGO gets in the way and will cause people to hold on to a losing position because to take a loss means they were wrong. Likewise, some refuse to look at the opposite side of a market and only want to hear up, up, and away. Analysts are married to one side of a market and become blinded by prejudice. These are the travails of investing and forecasting – the reason for black & white models. We simply must get away from bias and preconceived ideas in order to survive our own trading decisions.

Whether we consider with aloof amusement the dreamlike state of governmental prognostications rooted in self-interest, or we read with the utmost cultivated rapture about the latest sinister attempt to influence and control the population, there is only one thing that matters – objective reasoning rather than subjective. It is impossible for anyone to fundamentally comprehend all the various influences at work that creates a trend. The reasoning on a global scale is different from each perspective because it reason is perceived through the prism of the currency of the investor.

NY Gold Nearest Futures - REVERSALS	
Daily	Weekly
19038 18831 18814 18490 18326 18203 18035 17997 17884 17694 17629 17254 17150 (17198)	19243 19175 17629 17305 16801 BULLISH
16470 16155 15227 14901 14743 14657 14536 14329 14312 14246 14220 14171 14151 14130 14084 13893 13704 13636 13204 13178 13155 13105 12977 12899 12564 12238 12194 12164 12056 11996 11944 11815 11782 11782 11765 11678 11589 11536 11372 11343 11297 11262 11236 11162 10874 10873 10796 10643 10203 10179 9959	15885 15428 15227 BEARISH 14797 14058 13327 13217 12738 12389 12345 11998 11891 11691 11319 10874 10767 10755 10632 10450 10203 9462 9432 9422 (9367) 9279 9250

Alternatively swayed by the domestic myopic views of economic factors, and the clamors of international faction steeped in currency trends, it is the Reversal System that gives substance to our expectations by reducing the world of complexity emerging from the detached dynamics of real world global interconnectivity into a binary equation of black and white. It is what it is and the market

performance will be the ultimate judge – not opinion shrouded in preconceived ideas. For months, gold held 1605 on a weekly closing basis. Then that Weekly Bearish Reversal was elected. The market first rallied to test the high of the week, then crashed like a plane in a nosedive. It moved from one level 1605 down to the next Weekly Bearish Reversal at 1522.7 bottoming at 1526.9.

The mere fact that the REVERSALS are a separate and distinct model steeped in physics rather than cyclical nature, provides us with an independent tool to help filter the cycles. Because cycles are turning points and not specific highs or lows, the REVERSALS help to often qualify the direction. For example, 34.4 months (4 x 8.6) from the March 2009 low is due here in January. It is often confusing to those who are not familiar with cycles. Just keep in mind that they are turning points and not always specific events. Therefore, January 2012 instead of a low, may produce a reaction high along with the stock market – *i.e.* DJ Industrials.



We can see on the WEEKLY LEVEL that the oscillator is still in a downward position. At this time, the Major Weekly Bearish Reversals are 1522.7 and 1405.8. Thus, only a weekly closing below 1522.7 will signal that an immediate downtrend could retest long-term support. According to our model, the Minor Weekly Bearish Reversals are found at 1588.5 and 1542.8, followed by resides at 1479.7. Consequently, only a weekly closing below 1588.5 will signal that a sell-off is likely to follow.

On a long-term basis, our Reversal System indicates that our Major Weekly Bullish Reversals are 1680.1, 1730.5 and 1762.9. In order to see a reversal in trend, gold would have to close ABOVE 1762.9 on a weekly basis. The weekly turning points are coming into the end of January and to stabilize this market gold has to at least accomplish a weekly closing above 1680.1 for the end of the week of January 23rd. Failing to accomplish even that, will warn that January may prove to be a high with a decline thereafter.

Hence, the REVERSALS are the hurdles that must be accomplished. They are separate and distinct from the cyclical target of TIME. They tend to provide us with a more black and white view of a market and they should always be seen as moving from one level to the next and not a continuation of a trend unless it is just starting rather than one that has been in place for some time as the pattern we see in gold.

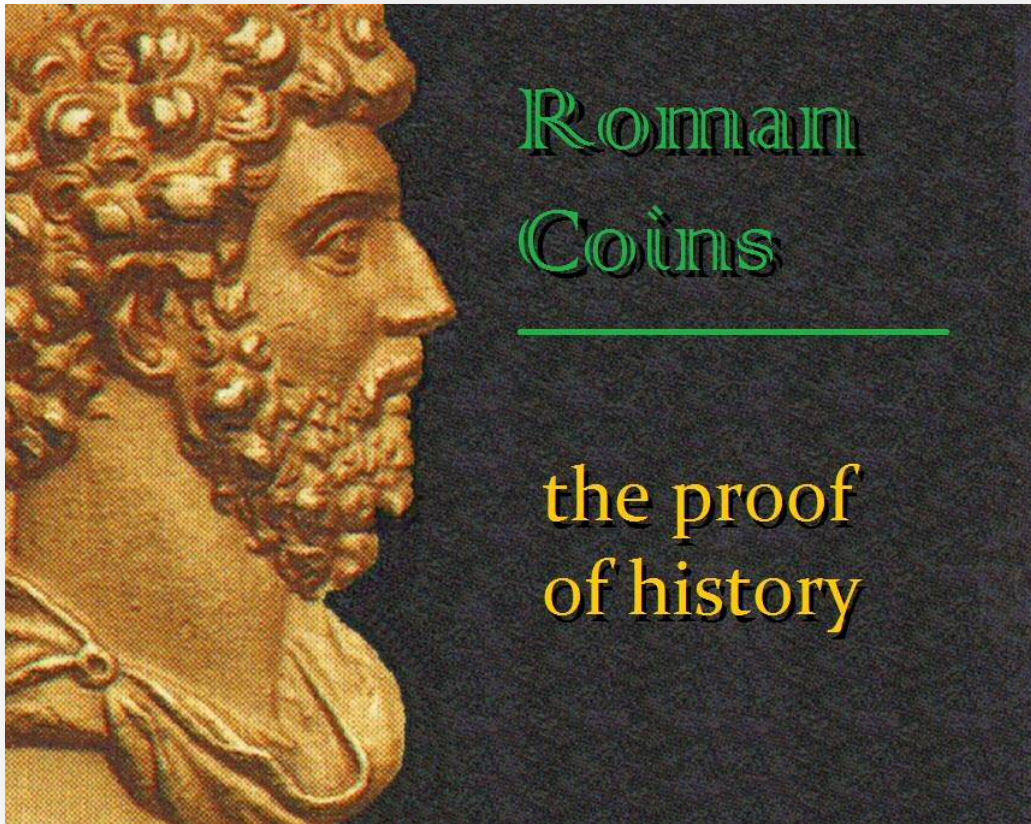


When we look closely at the Weekly Cyclical targets, note that the week beginning 01/30 is the low in the composite and then the high thereafter is the week of 2/2- and then 03/05. Each of these target weeks are turning points. The Directional Change target are falling into line one week prior to these idealized events.

Looking at just these two distinctly different models, Cycles and Reversals, we can see that it is the combination of these two models that give us a better sense of what is developing..

SUBSCRIPTION SERVICES

We hope to have the subscription services up and running by June. These will be the computer generated reports written by the computer to further eliminate the personal prejudice and bias inherent in forecasting & trading.



Roman Coins

The response to the offering of Roman Coins was simply overwhelming. So many people have written asking how they can buy Roman Coins and others realizing these are from the 3rd Century have asked are there examples available showing the collapse of the monetary system? I have contacted some old friends regarding making available a selection of Roman coins of this 3rd Century period for those interested in owning a piece of real live history from hoards.





AHENOBARBUS (supported Brutus)

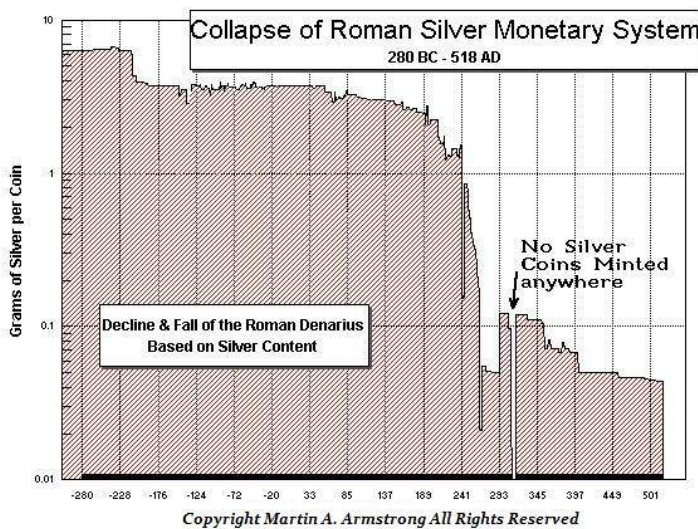
(9 Known)

Brutus (EID MAR) I Killed Caesar on Ides of March)

(2 Known)

Because of the turmoil of the 3rd Century and precisely the dangers we face as government goes after citizens hunting down their wealth to confiscate to sustain their existence, what happens is they cause capital to hoard reducing the **VELOCITY** of money. Hoards of Roman coins of earlier periods exist. However, such hoards are few in number. Consequently, the coins tend to be much rarer. As shown above, here are two gold coins from the civil war period that followed the assassination of Julius Caesar. In the case of Brutus, a non-portrait silver denarius would bring generally \$2,000-\$5,000 where a silver EID MAR would be \$25,000-\$100,000. There are only two gold EID MAR coins and these today would bring more than \$1 million. The gold Ahenobarbus would bring over \$50,000 today.

Hoard of the 3rd Century are far more common. Pots with up to 50,000 coins have been discovered, but of course the condition is often well corroded making such coins worth perhaps \$10 simply because they are a relic of the past. Silver and gold endure through the ages much better than bronze. Thus, condition of coins during the 3rd century does help to reduce the supply of decent well preserved coins in proportion to the bulk that are found over time.



Consequently, those asking the question: *Is it possible to obtain coins showing the drastic collapse in silver content of the 3rd Century?*

This collapse took place during the reign of Valerian I (253-260AD) who was captured by the Parthians (Persians) and stuff as a wild animal trophy upon his death. His son, Gallienus (253-268AD) made no effort to rescue his father and the collapse from there is easily seen in the coinage. So the answer is yes! I have made arrangements for those seeking such an example of the Monetary Crisis of the 3rd Century. This is an accommodation – not a business.

Examples of the Monetary Crisis of the 3rd Century

PRESERVED BY A HOARD



In this particular hoard, the earliest coins were those of Valerian I (253-260AD). These appear to be silver coins, albeit the silver content is slightly below 50%. Valerian was captured by the Parthians of Iran and thus his joint reign with his son Gallienus (253-268AD) came to an end. Therefore, these coins were minted between 253-260AD. This suggests that the person burying this hoard began to cull the coins in circulation as the monetary system began to collapse. Additional silver coins of this period exist in this hoard as Salonina, the wife

of Gallienus. These also are from the same period of 253-260AD.

The last coins found in this hoard take us up to Diocletian (284-305AD) and his joint ruler Maximianus (285-305AD). Since the monetary reform of Diocletian took place in 295AD and the coins included within this hoard were pre-reform, this suggests that this hoard was assembled covering the period of 253-295AD or 42 years. It was discovered in England and thus includes coins struck by Postumus 259-268AD, which were once again a restoration of silver. For you see, in 259AD because of the monetary crisis brewing, there was a division of Europe. The Gallic Empire was born and this France and England separated from Rome and were not reunited with Rome until 273AD. Therefore, the Gallic Empire lasted officially about 14 years while the full duration was 15.7 years (1/2 the Pi Cycle).





Pictured here are the debased coins of Gallienus. Most of these once silver coins are not merely reduced in weight, but are struck in bronze and are generally of a very poor quality with respect to workmanship, style, weight, and regularity. Precisely as the USA and all countries did in 1965, the removed silver from the coins, but replaced it with a white metal (nickel) to give the appearance of silver. The Roman pulled a similar trick. This issued the coins in bronze, and then silver plated them to make them appear to be silver. Such coins that survive with the silver plating intact are naturally much difficult to find. The silver plating wore off quickly, and any hoard coins that are cleaned that had the silver still present, end up removing the silver to get rid of the corrosion. Pictured to left, are four coins with much of the silver plating intact, but as often the case, they are badly corroded. Bronze does not survive well in the ground. Consequently, finding acceptable specimens with the silver intact is difficult.

The question has long been, just how did the Romans silver plat the coinage without electricity? These ancient metals craftsmen working in the Roman mints at that time had discovered how to apply a complex principle of Chemistry involving oxidation and reduction to achieve silver plating. This process would not truly be entirely understood by scientists until the 19th century.

The ancients probably learned the technique by observing special rare cases of naturally occurring processes. Throughout history, we find plated coins were often produced. The process seems to be discovered by counterfeiters. The earliest official use of the trick dates back to the Peloponnesian War where Sparta defeated Athens in 404BC. Illustrated here is a silver tetradrachms on the left and the official issue at the end of the war as Athens was running out of silver and resorted to plating bronze coinage. Again the issues are very crude and rare with the silver plating intact.





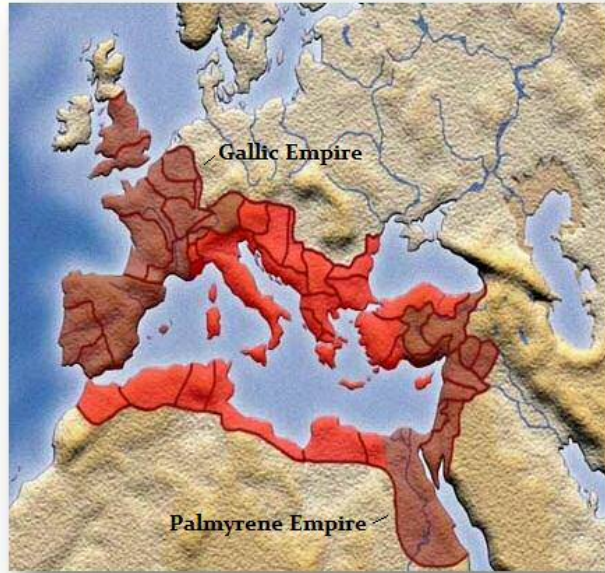
Pictured above, are genuine coins of the Emperor Claudius (51-54AD) that are ancient counterfeits produced by the mint. These are bronze coins produced from the official dies, yet are silver plated. This demonstrates that the bureaucracy always has had its own agenda. These coins stand as evidence of how government workers were scamming the process of producing money. These "*Fouree Denarii*" are extremely rare and will bring much more than a genuine silver denarius. These coins stand as witness to the fact that the ancients knew how to plate bronze coinage for hundreds of years.

During the early days of the Roman Republic pre-27BC, "*Fouree Denarii*" were produced by covering copper blanks with a sheet of silver on both sides and heating to weld the metals together. Alternatively, heated copper could be quickly dipped into molten silver accomplishing the plating appearance. Both of these processes required a considerable amount of labor to produce coins reducing the incentive to create such counterfeits. These ancient forgeries are known by their French term - "*Fouree*".

The method of plating that was used during the 3rd and 4th Centuries was substantially different. The Roman moneyers had discovered that copper could be etched away by certain acids and corrosive salts that will leave silver untouched. A coin blank was made in the regular way of alloying two metals containing about 5% silver, sometimes even less, with the majority being copper. The blank was then dipped in a "pickle" type solution of corrosive salts and acid. The process could be repeated heating the planchets again followed by another dip to speed up the process. The copper was dissolved out, leaving a microscopically thin layer of sponge-like pure silver that now covered the surface of the blank. When the planchets were then struck with the dies, the sponge-like silver was flattened down and spread across the surface of the coin, creating a stunning, brilliant silvery finish on the coin. This silver plating soon wore off in circulation leaving a bronze coin.

Absent from this immediate English hoard are coins of Macrianus (260-261AD) and his son Quietus. These were Eastern usurpers declared emperor by the troops following the capture of Valerian. The absence of these coins illustrates that much of the circulating money supply in the West tended to be local. Also absent are coins of Regallianus (260AD) a brief usurper in the Balkans.

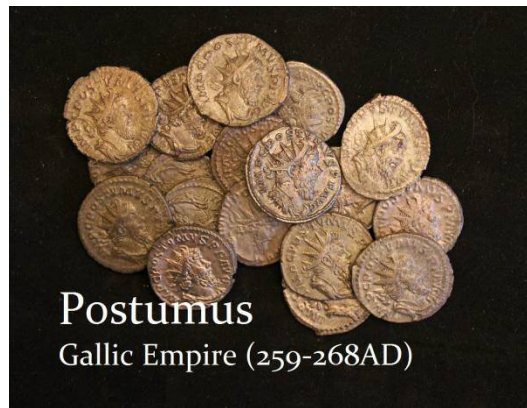
The economic decline that caused the disintegration of the Soviet Union due to fiscal mismanagement and excessive control of the people as the United States is now adopting where everyone is a terrorist, can be seen as history repeating. The economic decline of the 3rd Century brought more than just the rise in Christianity as people prayed to their gods and nothing happened. As illustrated here, the Roman Empire split at first into two parts with the Gallic Empire breaking away including England, France and Spain. Then less than a decade later no doubt encouraged by the fact that the Gallic Empire was able to sustain itself and Rome could not take it by force, we find



**Fragmentation of the Roman Empire
Gallic Empire Splitting 260AD and
Palmyrene Empire Splitting in the East in 269AD.**

in the East at Palmyra there was hope that they too could separate into a new empire free of Rome. Economic declines open the door to political changes on a grand scale. Those who fail to understand

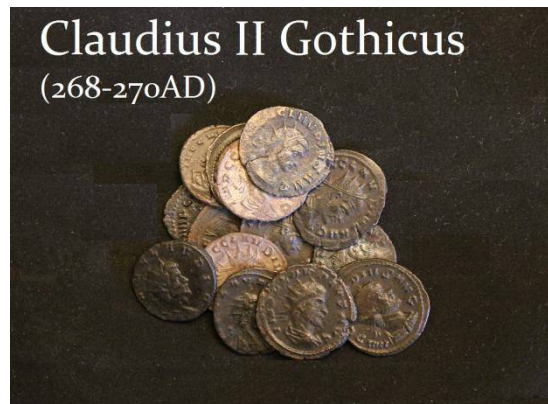
that the more aggressive the United States becomes with its taxation, the greater the possibility that the nation will split also along religious ideals.



**Postumus
Gallic Empire (259-268AD)**

The Gallic usurper Postumus (259-268AD) took Britain, France, and Spain up to the Rhine River and carved out a new Empire. Here the coins are silver once again and Postumus portrays himself as the great restorer of the economy. There are small quantities of his successors' coins found in this hoard.

Gallienus' immediate successor after his assassination was Claudius II Gothicus (268-270AD). His coinage is generally of the same poor quality as that of Gallienus at the end of his reign. The coins are poorly struck, bronze and silver plated, which quickly wore off. Claudius was given the title "Gothicus" for defeating the Goth barbarian tribes. Claudius was most likely part of the conspiracy against Gallienus along with Aurelian. The Goths brought with them a plague and thus Claudius died of the disease just shy of two years of a reign.



**Claudius II Gothicus
(268-270AD)**



Claudius was succeeded by his co-conspirator against Gallienus – Aurelian (270-275AD). Aurelian was the great restorer. He is the one who built the wall that still surrounds Rome today. He constructed that due to the swarm of barbarian invasions. His coinage reflects the first monetary reform that provides the bounce coming out of the low on our chart. The workmanship is greatly improved, and the coins take on a general uniform look. They are marked “XXI” or “KA” and this states that the coins, although are still bronze, not contain 1/20th part

silver. This reflects the official acknowledgment of this chemical process to create silver plated bronze coins. Now there is no return to silver coinage, just a claim that a tiny portion of the coinage is now silver mixed in with the bronze.

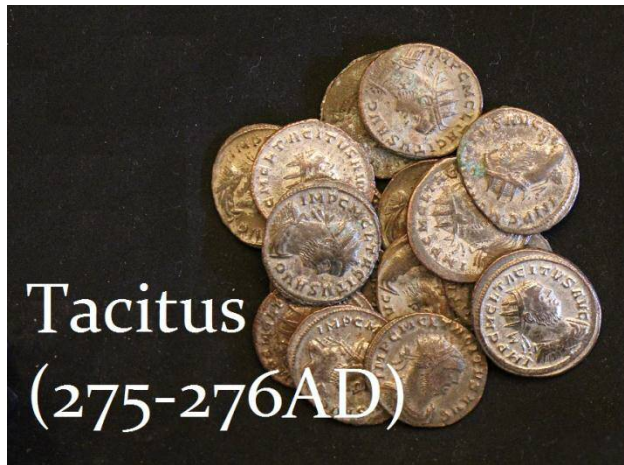
Aurelian’s reform is clearly extensive. The increases both the size and the weight of the antoniniani as they now took on a more uniform appearance. Aurelian officially adopted the silver plating process and increase the size and weight of the gold coins from 5.5 g to 6.5 g. He made no attempt however to reintroduce any silver coinage. Additionally, he made an extensive production of coins bearing his wife's portrait Severina. These coins however are approximately 3 times as common as those of his wife.



Aurelian is assassinated because of his reforms. The internal bureaucrats, corrupt as we see they are today, plot against him to prevent him from cleaning house so to speak. So we see clear parallels – (1) Rome splits because of the monetary crisis just as did the USSR, and (2) the bureaucrats were running government (**BACKROOM DICTATORSHIP**). Because it was the bureaucrats who killed Aurelian rather than a general, we have a brief period of the **Interregnum** where the Senate issued two bronze coins without the image of an emperor.



Æ Bronze Sestertius of Interregnum of 275AD



After the death of the Aurelian, the troops of the Balkans wanted to just associate themselves from the assassins in the bureaucracy. They petitioned the Senate to nominate the new ruler. This was highly unusual since normally & been overthrown by generals. In this case, it was a corruption of the bureaucracy that took down a Aurelian. The Senate nominated Tacitus (275-276AD) was an elderly senator claiming descent from the famous historian of the same name. Tacitus was 75 years old. He joined the troops in Thrace to defeat the Gothic invasion. The traveling prove to be

burdensome and Tacitus died in April of two 276AD.

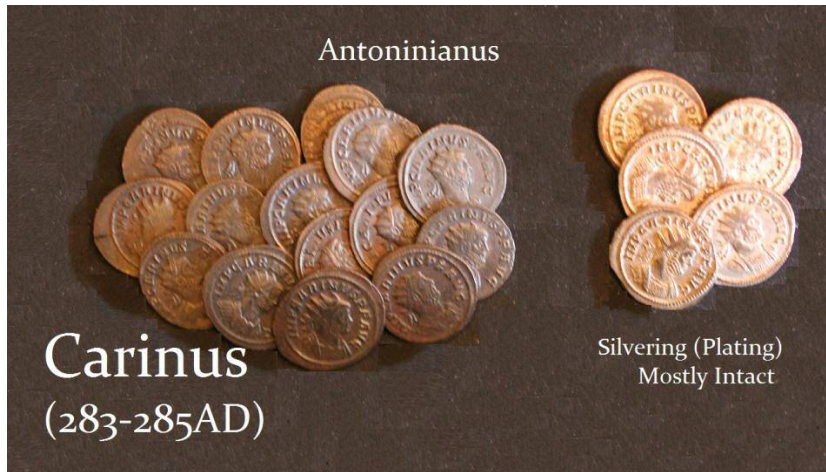
Following the death of Tacitus's half-brother Florrianus (276AD) claimed the throne. His rule was recognized by the Senate and most of the Western provinces. However, the Eastern armies proclaimed Probus to be emperor and thus the to were locked into confrontation. The two armies met at Tarsus however before Battle Took Place, Florianus was murdered by his own troops after rain of only two months.



Probus (276-282AD) was a highly competent emperor for he was not merely competent as a general but he also attempted to restore the economic livelihood of the Empire. To some extent Probus represented a time where the prestige of Rome had declined greatly due to the barbarian invasions. Probus was to some degree very much like Ronald Reagan's insofar as he sought to restore the prestige of the Roman Empire much as Reagan came at a point in time where the United States had been humiliated by Iran.

The interesting aspect of the assassination of Probus 282AD is that he was murdered because of his attempts to reform the bureaucracy. In this particular case Probus was murdered by mutinous troops who objected to being used for public works. We must keep in mind that the military received a full pension after 20 years of service similar to the current situation with government employees of modern-day. Having such a huge sow read force who were entitled to pensions, Probus attempted to achieve some economic gain by having the military construct public

Carinus (283-285AD) we still see the Aurelian standard reformed coinage 1/20th part silver with the silver plating. When his father and brother set out for Persia Carinus remained in Rome. In the Balkans a new usurper appeared known as Julian of Pannonia (284-285AD) who Carinus confronted him near Verona and slew him in battle. He now had to face Diocletian who is now held



by the troops in the East and was marching against Carinus who actually defeated him in battle yet was nonetheless murdered by his own troops leaving Diocletian as the new Emperor of the Roman Empire.

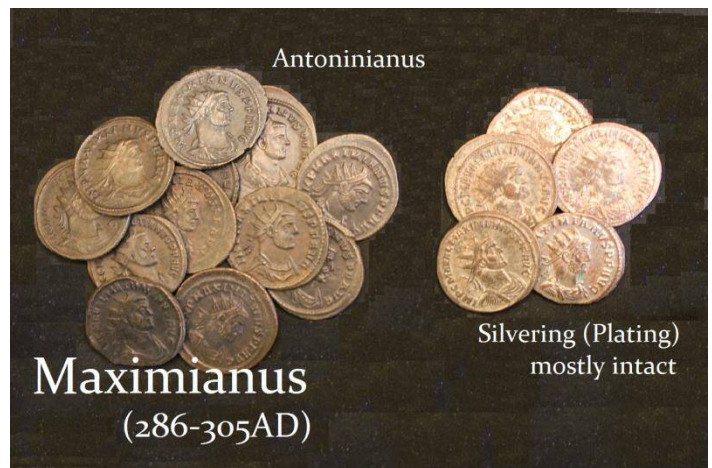
It was now Diocletian (284-305AD) who came to the throne with new ideas about how to turn the economy around and strengthen the borders of the Roman Empire. Was during the year 295AD or 296AD that Diocletian began his monetary were forms. He introduced a new silver coin that was equal



to five bronze folles that was now equal to 2 1/2 bronze antoniniani. The follis adopted the Aurelian reform insofar as its fabric consisted of one part silver to 20 parts copper. The post reform antoniniani became pure copper abandoning the one part silver denoted by the marking "XXI" that now appeared on the follis.

Diocletian realized that the Empire was too big for one man to manage alone. Part of his political reforms included

dividing the Empire between East and West with two emperors and he selected Maximianus (286-305AD). There were also two Caesars who were the heir apparent forming the Tetrarchy. Diocletian became the first emperor to retire. While the empire was actually divided between east and west, it would be Constantine I The Great who would move the capital to the east.





Saturninus (280AD)



Bonosus (280AD)

works. Even during the Great Depression the Empire State building in New York was constructed giving much needed boost to the morale of the

population. In this same context we find Probus was attempting to restore the confidence of the people through also establishing public works. It was the corruption of the bureaucracy that had not merely killed or Aurelian but now rose up also against Probus. There were two usurpers during this period time approximately during the year 280AD. The first was a general Saturninus (280 AD) located in Egypt. Not much is known of Saturninus and only two coins exist one being located at the Louvre in Paris. The second usurper was in Britain by the name Bonosus (280AD). These coins tend to be very crude and extremely rare. Neither of these coins existed in this hoard.

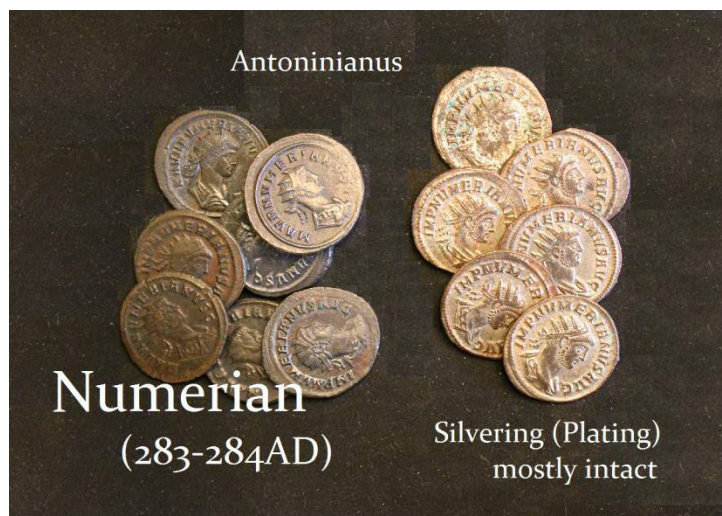
. The Praetorian Prefect Carus (282-283AD) was duty bound to protect Probus. Upon his assassination the troops hailed Carus to be emperor who raised his two sons to the rank of Caesar Carinus this and Numerian.



Carus (282-283AD)

Carus set out on a campaign against the Persians which he defeated. However, he was struck by lightning in his camp at Persian capital in late 283AD. Carus perhaps one month before his death raised his two sons to the rank of Augustus meaning co-emperors. Numerian was with his father in Persia and

after his victory led the troops back to Europe when he was discovered murdered in his litter. The Commander of the Imperial bodyguard was Diocletian who immediately accused the praetorian prefect and had him executed without trial. It is quite possible the Diocletian may have had a hand in the death of Numerian. So once again we have a very short-lived emperor



Numerian (283-284AD)

Silvering (Plating) mostly intact

ROMAN COINS DOCUMENTING THE MONETARY CRISIS OF THE 3RD CENTURY

		Silvering		
		Mostly		
		<u>Bronze</u>	<u>Intact</u>	<u>Silver</u>
Valerian	253-260	Silver		200
Gallienus	253-268	Æ	40	
Salonia	253-268	Silver		200
Postumus	259-268	Silver		125
Claudius II	268-270	Æ	50	
Aurelian	270-275	Æ	50	
Severina	270-275	Æ	100	
Tacitus	275-276	Æ	150	300
Florianus	276	Æ	300	500
Probus	276-282	Æ	65	
Carus	282-283	Æ	85	
Numerian	283-284	Æ	100	250
Carinus	283-285	Æ	75	150
Diocletian	284-305	Æ	50	125
Maximianus	286-305	Æ	50	125

The quality of these coins is virtually Extremely Fine without corrosion. All names are legible. These are the selected quality from the hoard and are not the typical low grade junk often sold. This provides a good sampling of this period (minus the extreme rarities) that have survived thanks to the tremendous economic upheavals of the times that led people to bury their wealth.

Prices include shipping. Payment is acceptable at:



ArmstrongEconomics@HotMail.COM

Or checks may be send to:

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