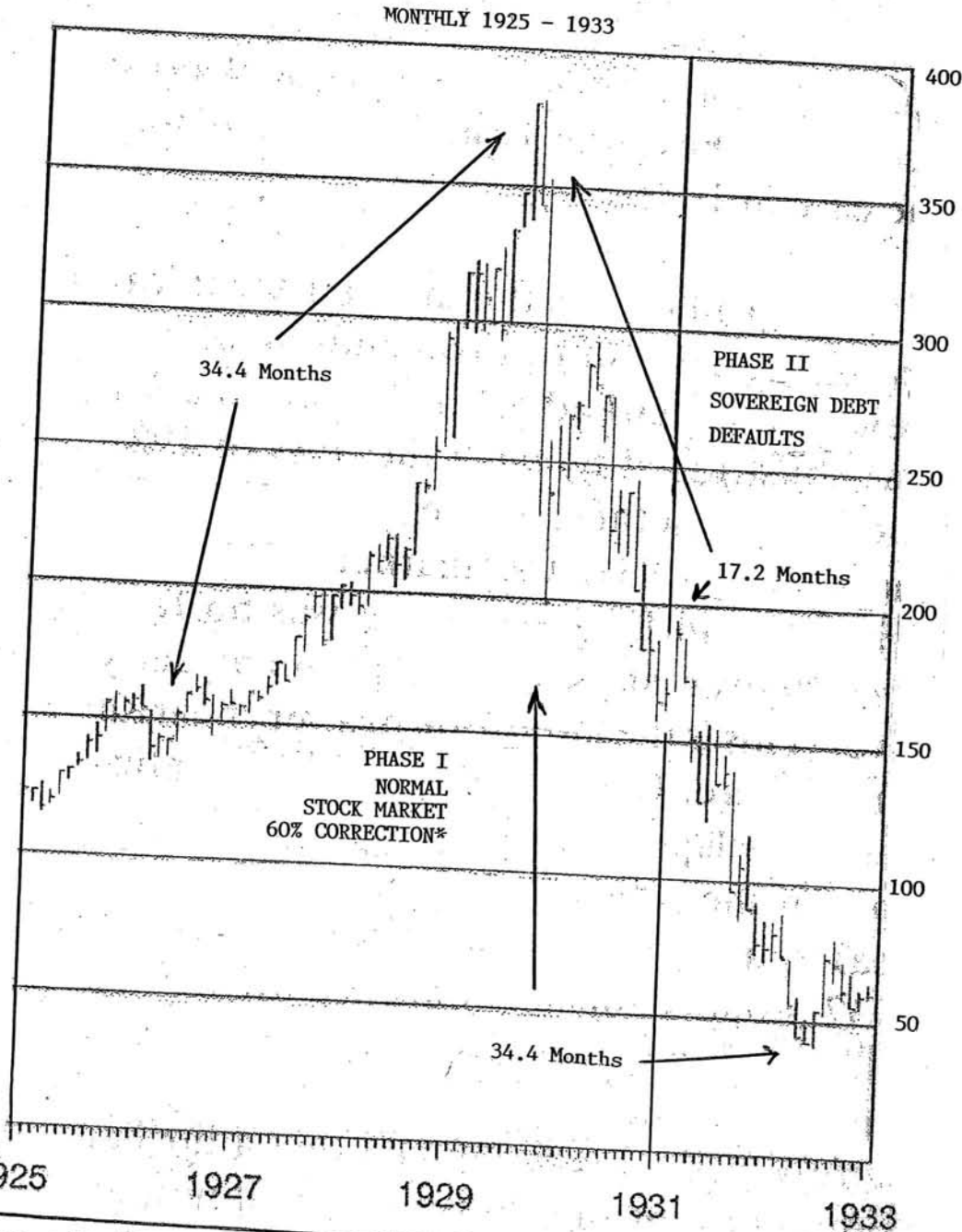


Armstrong Economics TM

The Two Phases Of

Dow Jones Industrial Index

The Great Depression



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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 continued 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.

Everything at Princeton Economics that was our mission to gather information, and bring together the most widely covered global economic perspective, has been a effort that is now bringing us to that fateful crossroads in history. There are those who are trapped by the past and cannot see the dynamic evolution that causes history to repeat, but like lightning, never quite precisely the same way twice. In 1914, Britain reached its peak as the center of the global economy. It passed that torch to the United States who by 1929 became the leading world economy and was also a CREDITOR nation just as China is today. There will be no 1930s style depression, for the cards are nowhere near the same. Yet China will become the leading world economy by 2016, and then suffer its 1929. The West is doomed and it will collapse from its own debt. We borrow with no intent of ever paying off the debt, and somehow both Congress and the majority ignore this fact just as they had ignored the problems in mortgages that violated common sense.

No matter what country you live in, it is the duty that falls upon the shoulders of every reader to do what you can to get reality to manifest. Feel free to send this report to every government, friend, and member of the press around the world. If we do not get the debate started, we stand no chance of saving the future for ourselves and our posterity. We can reach that next never in political-economic evolution only through the hard work of everyone. For this reason, this is provided as a free service.

There is a NEW DATABASE that will be used for special updates provided exclusively to those who register. I want to thank you all once more for your support and for your contribution to try to help society survive the coming storm.

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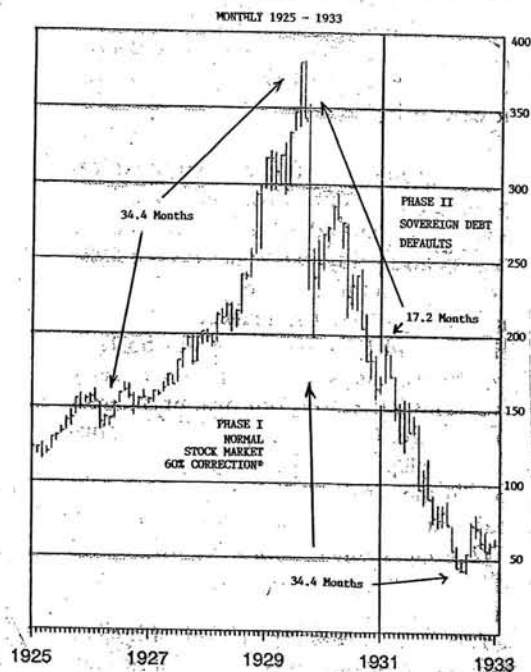
YOU MAY FORWARD ANY REPORT TO A FRIEND OR TO ANY
GOVERNMENT TO GET POLITICAL CHANGE MOVING

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This Report may be forwarded as you like without charge to individuals or governments around the world. It is provided as a Public Service at this time without cost because of the critical facts that we now faced economically. The contents and designs of the systems are in fact copyrighted. At a future date, a new edition of the 1986 The Greatest Bull Market In History will be released and a new book will soon be published on the model itself - The Geometry of Time. It is vital that we do not forget this is a world economy and the arrogance that any nation can dictate to the world is just insanity. Every nation effects all others no different than if one nation were to pour all its toxic-waste into the ocean. Everything is interlinked and solutions are never isolated events.

The Two Phases Of The Great Depression

Dow Jones Industrial Index



By: Martin A. Armstrong

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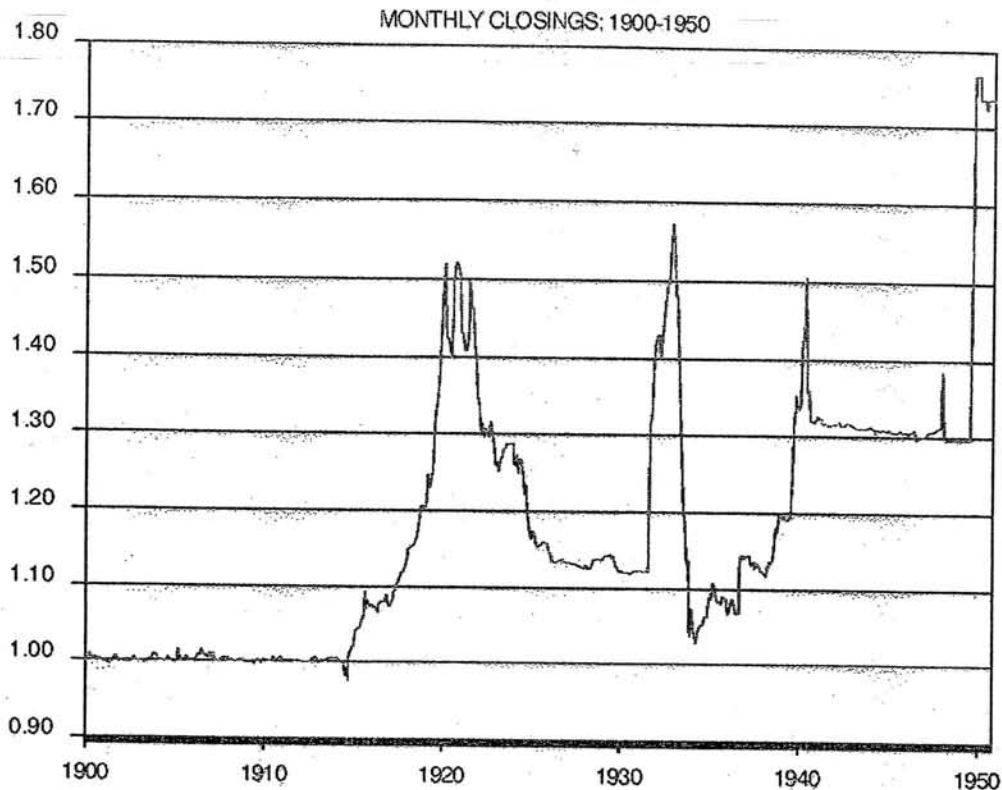
HERE is a significant lack of confidence building in both the economy as a whole and the financial markets. Not only are we seeing significant volatility as was the case on May 6th, 2010, but this is also showing up in the political arena. They often claim the little guy is always wrong. That is a popular saying among professionals who just like patting themselves on the back. History suggests that in the end, the little guy wins the

day because he ultimately controls the power to everything in his hands. Many will argue with that statement. Yet, in the final analysis, government's power over the people is merely by their consent. Once they get pist-off, they always and without exception, have the ultimate power to overthrow government no matter what its form. Thus, in the end, government merely exists by the consent of the people. The critical threshold is actually just about 62%. If you look at the presidential elections, you will find that the two presidents who were elected by the people (George Washington was elected by politicians) with just over 60% where Johnson and Nixon. FDR did not capture 60% in the 1932 election. He did reach that level in the 1936 re-election.

The little guy judges the world in a common sense fashion. Professionals make excuses why things like the mortgage boom can go on forever. When interest rates hit their highs in 1981, my mother and her sister withdrew all their cash and locked in at the high in 10 year paper. They did NOT ask me if they were doing the right thing. They made a judgment call based upon just common sense. Most professionals missed that high.

With all the talk about everything from a Depression to Hyperinflation, there appears to be some confusion that appears to me due to the fact that we are not on a gold standard. Gold is knocking on the glass ceiling, stocks are falling and have become highly volatile demonstrating the lack of confidence and confusion out there, and the dollar has risen in the face of a possible European break-up. If anything, it is not boring.

U.S. Dollar Index 1900 = 100



Source: Princeton Economics

Based upon the letters I am receiving, there appears to be confusion over will we go through a Depression or Hyperinflation. To make it clear, the Great Depression was a TWO PHASE event. Phase I was a normal speculative correction with the typical 60% decline. Phase II, was the beginning of the sovereign debt crisis. This is what wiped out the **CAPITAL FORMATION** for sovereign debt had been sold to the American public in small denominations. When this crisis hit, those who invest in bonds vs stocks always runs at least 10:1. Why? Who knows? Government has never paid off their debt and always default as Adam Smith wrote in Book V of his **Wealth of Nations** published in 1776. Nothing has changed since.

In the '30s as the sovereign defaults hit, this reduced deposits at banks for now that cash was needed to live on. Banks also were hit by their defaults, and thus these two trends really set in motion the massive bank failures. The famous Bank Holiday came during Phase II, not Phase I.

Nevertheless, debt was backed by gold. Yet these nations quickly ran out of gold and were forced into defaults and that in 1931 included Britain. This set in motion a wave of a flight to safety, which was the US dollar back then.

Pictured above, is our Dollar Index that incorporated 35 world currencies. The US was at that time like China today. It was the creditor nation. The US also had the largest gold reserve. This is why there was a flight to the dollar. This is **WHAT** caused deflation. As banks failed, because real estate is in fact leveraged since people can borrow 30 yrs into the future, it suffers the greatest of all contractions. Thus, farm land fell from nearly \$2 to 30 cents and acre.

Stocks are **NOT** all leveraged as is the case with real estate. Also, the entire real estate market depends upon the ability to borrow. With massive bank failures, credit dried up, as it is doing in real estate once again. Thus, real estate is the **LAST** to turn back up whereas stocks are the **FIRST**.

Deflation is the rise in the purchasing power of the currency. In the 1930s, this was caused by the **GOLD STANDARD**. Since gold was fixed, it could not rise in value. Thus, everything else must fall! That is important to understand for there lies the key to our understanding of the difference back then when compared to the present. The Euro is in fact outside of the ability of Greece to devalue. Thus, it is acting as gold did. The rate of interest rises in Greece because it cannot devalue the currency.

Because the Euro is not gold, what we are seeing is a bifurcated international flight to quality. (1) Gold is preparing to break out through our Primary Channel and when it does, it will then fall back and support upon it. That will signal it is moving into its right of passage to serious new price levels. (2) we are also seeing a flight to the dollar just as we saw in 1931 and this is manifesting into US debt public/private driving 10yr rate down as well as mortgage & corporate bonds.

When the Euro was being dreamed up, the commission attended my London seminar. I went over details of the problems in creating such a currency. I warned that each nation would have to have a flexible credit structure insofar as there could be no means be a central interest rate. That much it appears they listened to me on that. The downside of a single currency is the loss of the possibility of devaluation. Greece could devalue its currency and thus spare the civil unrest. It is in effect devaluing all assets in the country and thus invites foreign capital into private investment. When the pound fell to \$1.03 against the dollar in 1985, it was fantastic for Americans. The Brits thought we were nuts because to them they saw no change in terms of pounds. Real estate was expensive to them. Suddenly, what was \$2.40 was now on sale for \$1. Even the Concord flights were full of Americans when the flights had not been successful previously.

The Euro is in danger of collapse for it is acting as did gold in the 1930s. It is fixed in many ways among nations and there has to be a mechanism to allow Greece to now leave the Euro but be within the ERM so she can speak, very loosely. The object would be to depart and devalue. That is the only hope for Greece. However, we may see the same solution for Portugal, Spain, and even Italy. The Euro can be reduced to merely a merger of the French and German economies.

These pressures are building. This is what is behind both gold and the dollar now rising. We are dealing with an international flight to quality that cannot be ignored. This is the trend to understand. Yet this is not what we will see materialize into a 1930's Great Depression.

What we must comprehend is that during the 1930s, there was in effect a shortage of gold. Just as today and we saw the dramatic over-leverage of the mortgage market. What if the Fed could not and did not expand the money supply? That would have created a very major depression. Why? If the amount of real dollars could not increase, then the assets must shrink to reflect the available money supply. It is like putting a size 15 foot into a size 9 shoe.

When the supply of money cannot at all increase, then what happens is the value of the assets decline until there is a balance achieved. Thus, the major reason there was a depression center upon the fact that there was a massive contraction in every possible vehicle used to invest capital both from an equity and debt perspective.

It matters not what is money. In the 1930s it was gold. Mankind could not increase the supply of gold and thus there was a gold crisis created by the shortage. To have avoided the economic implosion, it would have required the devaluation of the currency that is the rising value of gold.

This is the same crisis today with the Euro. By trying to hold off inflation, the amount of euros created is curtailed. This sets in motion a shortage of euros from the Greek perspective and thus the assets must collapse in value to reflect the supply of euros. This creates civil unrest for it is also the devaluation of labor that cannot sell itself.

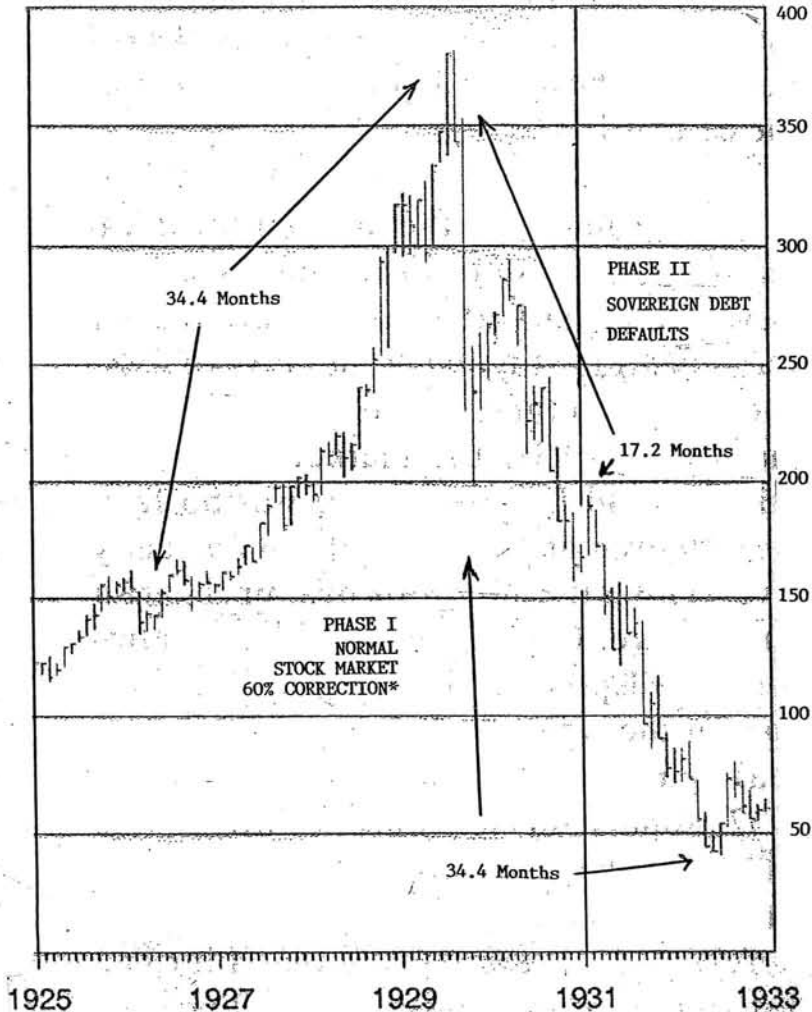
In order to create a 1930 Depression, the United States would have to adopt the very advice the IMF is telling Greece that failed in the 1930s and will destroy the nation politically. The IMF is nuts and does not understand the problem.

By insisting that there be a balanced budget, the IMF is supporting the bond holders at the expense of the people. There should be no contest for there should be no debt. If the currency devalues, the bond holders lose but the people survive. It is a choice that must be understood and made.

The reason why I do not believe that we will see a Great Depression is because it would

Dow Jones Industrial Index

MONTHLY 1925 - 1933



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When we look at the Dow Jones Industrial Index for the rise and fall of the 1920-30s, there is a neat and balanced performance that is not abnormal. From the 1926 correction, there was a perfect rally covering 34.4 months until it reached the high on September 3rd, 1929. The immediate crash was 51.6% and that took 2.15 months ($6 \times 8.6 = 51.6$). This was then followed by a 4.3 month reaction rally that was almost 50%. Then the collapse unfolded but THE LOW WAS PREMATURE BOTTOMING IN JUST 15 MONTHS! This was a timing interval that was indeed quite ABNORMAL. This was the clue that something was wrong.

We then see a 2.15 month rally into a high in February 1931. The market began to move sideways in March/April 1931. There is some strange collective intelligence in my belief for the market always reflects true reality even when we may not comprehend its actions such as May 6th, 2010.

In the current situation, we have a low 17.2 months from the big high in October 2007. This implies we have a good low that should hold. Now look at what took place in the '30s. On that same interval of 17.2 months, we have the minor reaction high, NOT A LOW! Where a low should have formed, we got what I have long called a CYCLE INVERSION! That means we get the opposite event YET THE CYCLE FREQUENCY STILL PRODUCES THE TURNING POINT!

Because we have a high instead of a low in February 1931, this then allows the cycle to extend. That is the high allows for the reversal of fortune. There is ALWAYS two sides like good and evil, male and female, bull and bear, yin and yang. This is what enable price movement for it is always a contest between two opposing forces.

With February 1931 producing a high, we now have the opposite trend available. Thus, the energy expended on the upside taking 34.4 months is perfectly offset by the opposite decline into 1932 for 34.4 months.

However, why do I say that the market appears to have some mystic collective intelligence? The major sovereign debt crisis begins on May 8th, 1931 when the Austrian Credit Anstalt bank, founded by the Rothschilds in 1855, reports a loss equal to about 5% of the total Austrian national deposits.

The market somehow knew what was coming. It made a lack-luster rally that could not be sustained. Through my experience in world advisory, we were asked to build a model on the Lebanese pound from records written down going back into the 1800s. We did that model for the Universal Bank of Lebanon. The model warned the currency would collapse by about 800% in about 1 week. I was stunned. I called the client and gave a forecast that by any means would have been shocking. Instead, I was asked what currency would be the best bet. The war began right on target. What that had taught me was that some people know what will take place and begin to move capital accordingly. That shows up in the price movements. We may not understand WHY a event happens, but the market is NEVER wrong.

The markets are truly never wrong. It is we who do not understand what they are telling us. There is no Efficient Market in that everything is balanced. The wild-card has always been confidence. If believe just no longer trust the government, they sell everything. That is the substance behind the Hyperinflation. There is NO direct ratio of money supply to the rate of inflation. It is simply a matter of CONFIDENCE.

The Crash of May 6th with the Dow Jones falling from 10879.76 to 9869.62 in a single day, has been spun every which way from Sunday. They launched an investigation. The talking heads did everything they could to get the word out for the government that all was well. It was an abnormality. Sleep well because the government will prosecute those bastards as well and even the score.

The problem was, the first technical weekly sell signal was at 10,600 and that week closed at 10,380.43. So will all the bullish that it was safe to go back into the water for there was no shark, was just that. Plain bullshit. The next weekly sell signal lies at 10,100 followed by 9600. The major broader support lies at 10,043 and 9600 on a monthly closing basis.

The fact that the DOW fell back below 10,000 on May 21st, validates the prices on May 6th. This is truly a reflection of rising volatility because people and capital are now confused and do not trust government. This has show up in the primary elections and is still possible to create havoc in November. Even the elections in Britain show that the mood of the people around the globe is now quite unsettled. Look at Korea, Thailand and Greece. Europe is under a dark cloud and the future is anything but certain.

While I have been receiving letters of support from foreign governments, my own is still in the denial phase. The CFTC and SEC are doing their best to screw up the entire economy and at this rate, it looks like they may succeed. They just don't get. They have no understanding of how markets move and see nothing but evil plots behind every decline. They think they can regulate only bullish trends and decree declines just illegal.

From a timing perspective, there looks as if there were two targets that have been

generated that we need to pay attention to right now. This will be June and August. It appears that whatever unfolds in June, we may obtain the opposite move going into then August.

Looking into June, the 10040 level is going to be an important pivot point. The major resistance will remain at the 12,000 level during the summer. It will start to decline only in August.

There is still no indication that there is a reversal in trend that hints at new lows ahead. Keep in mind that as Europe looks to be in trouble, capital will move not just to the dollar, but into the private sector. As nuts as this sounds, this should make some cash available for even mortgages, but under the old terms of real collateral.

We should see this capital shift also move into US equities and corporate bonds! That is what also took place following 1931. The spread between corporate and government debt collapsed.

There are former clients trying to gather all the old tapes from seminars that the government will not return. It appears that the SEC and CFTC are doing their best to hold every scrap of previous research they can. No matter what, they simply will never comprehend anything about markets. They are the most dangerous people around. Clients have been now assembling forecasts made 20-15 years ago that are spot on today.

While my country has betrayed me in every sense of the word, they cannot suppress the truth nor deter those who seek to understand what they have tried to prevent. They seem to constantly post lies on Wikipedia. If I owe no restitution, and the NY Banks pled guilty returning the money they stole in return for absolute immunity in 2002, then why did the SEC & CFTC keep me in prison for another 5 yrs to supposedly turn over assets for victims that did not exist and a restitution I did not owe? NO COURT will address this issue! The question is, WHY IS THE SEC & CFTC REFUSING TO RELEASE ALL PREVIOUS RESEARCH? This has always been about the suppression of what was suppose to be Free Speech! There will be those who believe whatever the government says. I wish you a wonderful future for you and your children in a world you are determined to manipulate.