

ARMSTRONG ECONOMICS

FORCASTING THE WORLD



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HELLO WORLD

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HELLO WORLD

By: Martin A. Armstrong

Former Chairman of Princeton Economics International, Ltd. – Copyright April 6th, 2011 all rights reserved.

It has been a hard battle just to write. We tend to think that we live in a country that is free and we have all these rights. Nothing could be further from the truth. For you see, they turned the constitution upside down. Instead of you having rights, you have to prove they exist. The government does whatever it damn well pleases whenever. It is your burden to prove you have any rights at all and whatever action they then claim violates the constitution. This is why THEY appoint the judges for they hold the keys to everything.

Perhaps lost in the maze of information was the shocking public announcement of the retirement of CFTC Judge George Painter last September 2010. He confirmed what everybody behind that curtain really

knows is going on – it's always them against the people. He wrote:

*"There are two administrative law judges at the Commodity Futures Trading Commission: myself and the Honorable Bruce Levine. On Judge Levine's first week on the job, nearly twenty years ago, he came into my office and stated that he had promised Wendy Gramm, then Chairwoman of the Commission, that he would never rule in a complainant's favor. A review of his rulings will confirm that he has fulfilled his vow. Judge Levine, in the cynical guise of enforcing the rules, forces pro se complainants to run a hostile procedural gauntlet until they lose hope, and either withdraw their complaint or settle for a pittance, regardless of the merits of the case. See Michael Schroeder, **If You 've Got a Beef With a Futures Broker, This Judge Isn't for You** — In Eight Years at the CF TC, Levine Has Never Ruled in Favor of an Investor, **Wall St. J.**, Dec. 13, 2000."*

This is why we are in such trouble. Everything is about keeping the game going – not about making society better. Take the current budget battle. The Republicans demand NPR is no longer funded. This isn't even a tenth of a tenth of a tenth of a penny in the scheme of things. It is political because they do not, and have never once, respected any independent reporting. This is no different than any other government trying to silence truth. The so called private press is always at the pleasure of government. Look at PayPal, Visa and MasterCard all stopped sending money to **WikiLeaks**. Who picked up the phone and told them to do that?

This is why everything is collapsing. There is just no hope because everyone just wants to keep that power. It

is never about making things better or saving the future. It is as if they are raised by dogs. Oh there are always exceptions. There are few who are independent. John Adler just died. He lost the election last time because he was a Democrat. But he truly lost because he was independent voting against the Party agenda, so what happened was the Democrats didn't like him and wouldn't support him. So he lost to the Republican. Adler would not play the game. He always responded to my family when others would not.



**PATRICK HENRY
(1736-1799)**

This is the very essence of what **Patrick Henry** Meant when he said ***"Give me Liberty or give me Death!"*** Life is just not worth living if we have to live like slaves.

Where in the film **MATRIX** the machines harness mankind for energy and create a fake world within which they live, we are not much better. We live to support the state and instead of energy, we produce income for them to survive. Yet this is what is breaking apart.

Plenty of people have written for years about how it will all collapse and social security will turn to dust when the baby-boomers retire. However, there is another side to this that is perhaps not being closely followed. What is the mechanism that will cause the rapid collapse? The crisis is powered by the exponential rise in the cost of government. For the same demographics apply there as well. There is a mad dash among federal government employees to now retire. As that takes place, they must hire people to replace them. Yes there is the Obama hiring freeze. But there are plenty of exceptions to that. So what is taking place also at the state and local levels is that now they must pay for the retiring worker and the new replacement. But there is no **REAL** money tucked away for the retirement

plans promised all these years. So the outlays are going to rise exponentially over the next 4.3 years.

New Jersey is such a mess that there is talk now about extending the income tax down to the municipal level. There is just no respect for the people whatsoever. Accountants already are warning people **NOT** to retire in New Jersey for they will tax your benefits unbelievably. There is a massive migration beginning to unfold all over taxation.

This further helps to keep a cap on real estate and there will be an ongoing shift in the supply. Prices will rebound to some degree in selected areas due to inflation, but we will not see the lofty levels of yesterday.

Being away for as long as I have been, seeing prices of just everyday things has been a shock. This has impacted me perhaps more than most, because it is like watching yourself in the mirror every day. You do not see the slow gradual changes. Pull out an old photograph from a decade or more and you are confronted with the changes in time and circumstance. I see the changes more so than others

because it is like a culture shock. Everything appears to be at least double. So thank God there was no real inflation or else prices would be 10 times higher than the past decade. This has been a real shock living such a sheltered life.



We are also on the verge of a rising famine. The weather is turning ever more volatile with extremely cold winters and very hot summers. If we get another real hot one this year, we may be on the road to creating a 7 year weather cycle that will burn up crops and keep food prices rising. This is part of the driving force behind the Islamic Revolution in the Middle East – the rising cost of food.

There is no way to prevent the collapse of society. We cannot fix it without political change, and that is not about to happen just yet. This is the

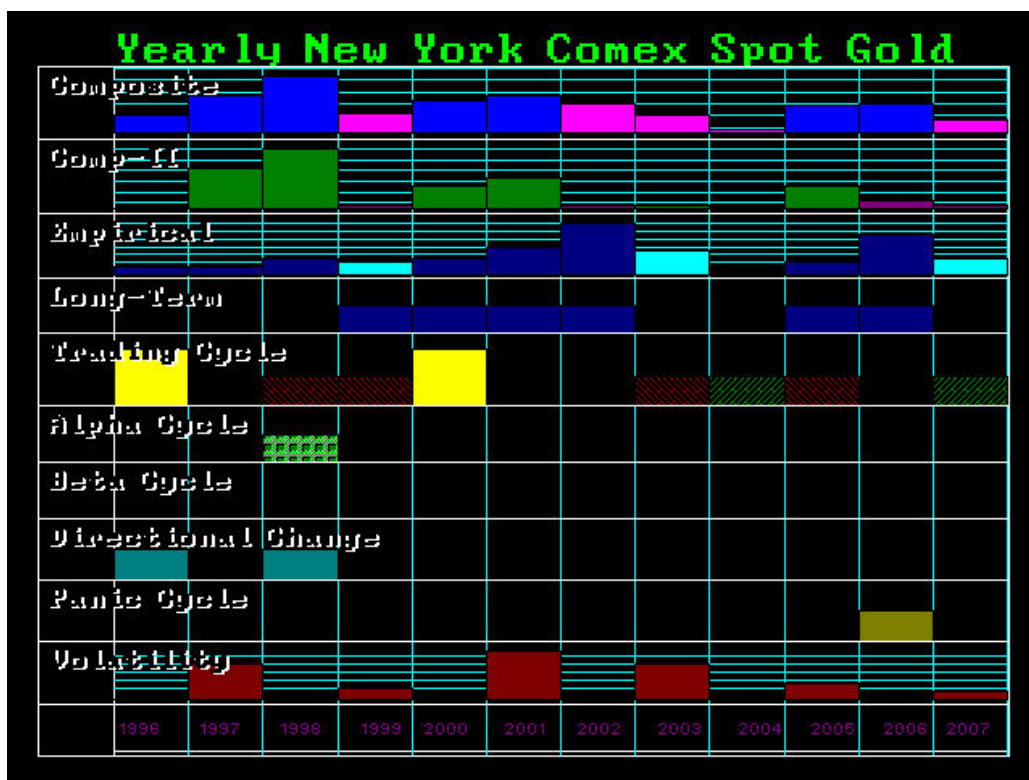
spirit that lies within the Sovereign Debt Crisis and it is now coming very much unglued. It is time for change on a worldwide scale and these things have always taken place throughout history. The key is not how high the Dow Jones will rise or gold, but what will the future really hold when we have to deal with reality?

The collapse DOES NOT appear to be just yet. Back in 1985 at our **Economic Conference**, I stood up showing projections of volatility out into 2032 for the duration of this 51.6 year Private Wave. It appeared back then that the sovereign debt crises would begin to appear after the 2007.15 wave going into 2011.45. That appears to have been a correct projection that the computer made. Its target for the actual collapse appeared to begin with the peak of the next wave 2015.75. It appears that the worst may be yet on the horizon between 2015.75 and 2020.05 (January).

What we must understand is that projecting the future by any individual has its hits and misses. The difference between INSTITUTIONAL advising and RETAIL, boils

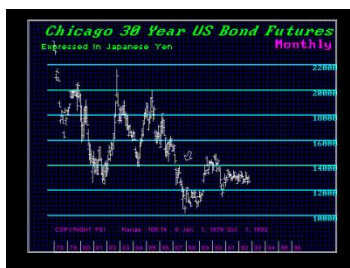
down to expectation. Among the INSTITUTIONAL crowd, I was not a demigod. Clients respected it was the computer that projected the future without the messy biases and shortcomings of personal foresight. Among the retail crowd, advisors tried to pound their chests and pretend they were better than everyone else and only their method was correct. Real money knows the latter tends to be snake-oil salesmen.

God does not speak to me during the day, or in my dreams. What I have learned is by actual experience and what at times can be seen decades into the future, is based upon computer correlations of the past. What I have written up to now has been purely from experience, flying blind without being able to see a screen with oscillators or any other instantaneous tool. So the difference with INSTITUTIONAL advisory work, you draw the line where you are right and where you are wrong. That is what the REAL money expects, not the yelling, screaming, or chest pounding. Markets are so dynamic and complex it is beyond consistent personal foresight.



Ascertaining the future in a given market on a fractal basis with each and every increment of time was just the first step. There were over 35 different models with submodels bringing the total to more than 70 different models and all had to be run separately. Then each was run in terms of every currency important within capital flows. This

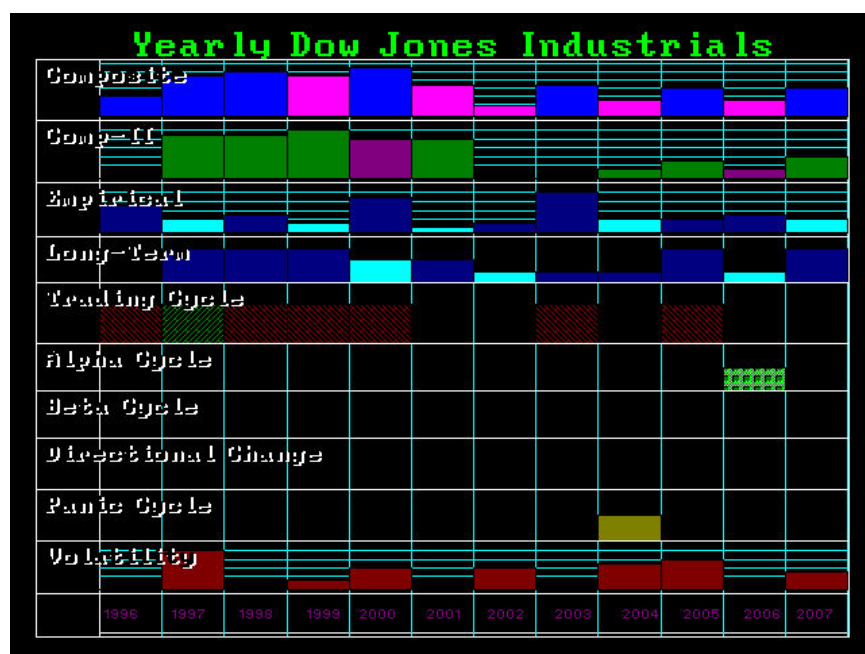
would all be correlated and then mapped out in each market. What you see just in these **Forecast Arrays** is the height of each bar represents a separate model calculation that targets that time period. The amount of money to construct this computer model today from scratch would no doubt exceed \$1 billion.



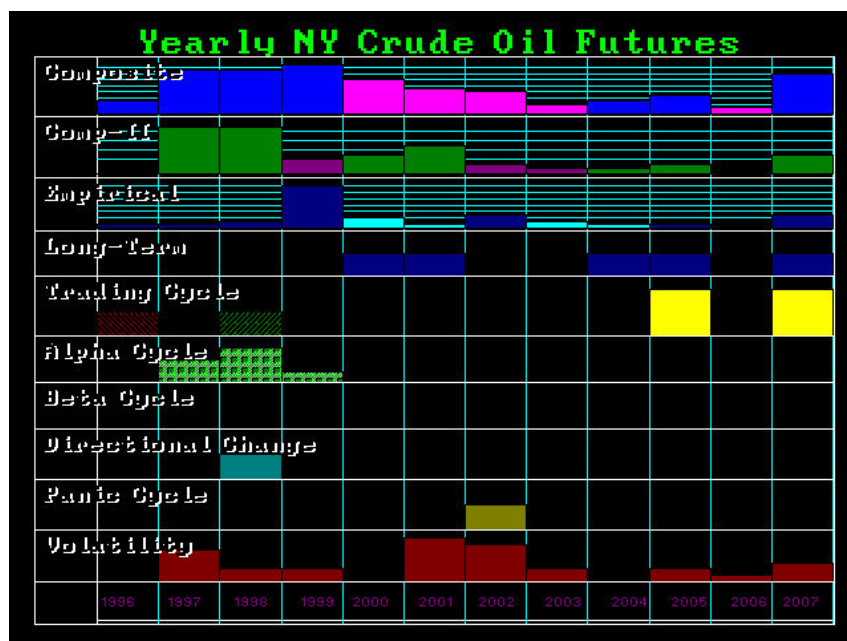
Here is the US 30 Year bonds expressed in Japanese yen.

The computer would forecast each and every market in each and every currency and correlate the entire world. The finished product was the most reliable forecast possible, and this is what the BIG money paid for – not chest pounding and snake oil showmanship.

Everything was thrown into the one giant pot from timing, pattern, and technical analysis, to stochastics, RSI, momentum and just about anything else you can think of. This is what they wanted silenced because it took away the manipulator's edge.



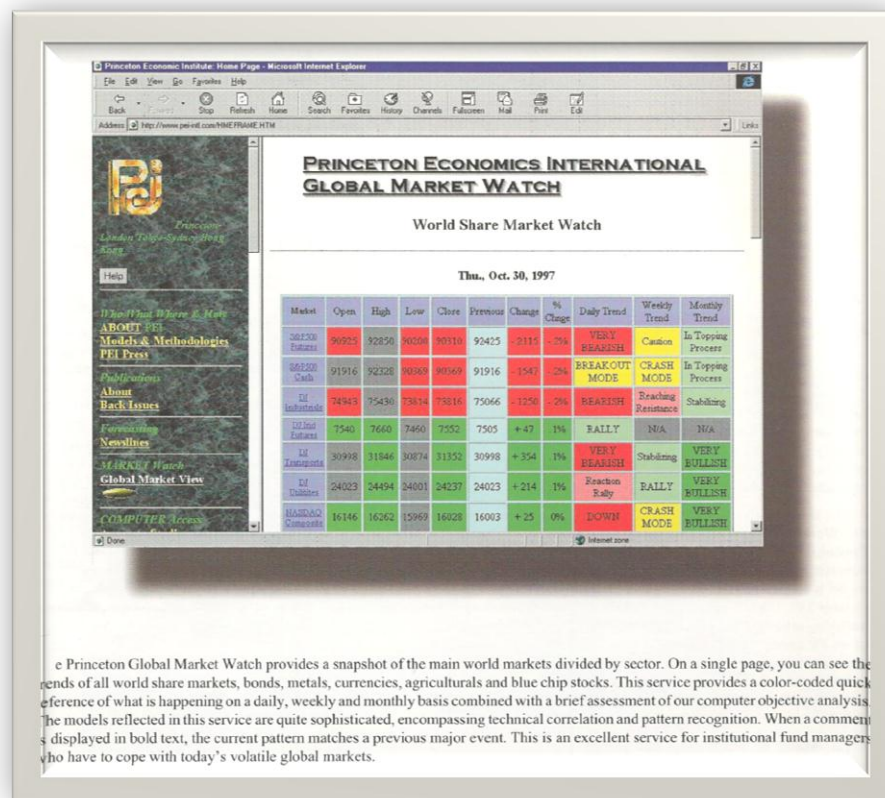
What is offered here is a **Forecast Array** generated by the computer on a **Yearly Level** and that provided a projection from 1996 outward for 12 years. This **Array** provides a look at the **Dow Jones Industrials** as it then appeared. The largest number of independent models was pointing to 2000 followed by 2003 and then 2007. The **Volatility** forecast called for a sharp increase beginning in 1997. That is when the **Dow** went exponential blasting through the 6,000 level reaching nearly double that by 2000.



The next **Forecast Array** is that of **Crude Oil**. Our forecast there is well known since it was covered by **Bloomberg News** and the **Department of Energy** requested that **Princeton Economic Institute** be

allowed to construct a model on **Crude Oil** for them given we were publicly projecting when **Crude** hit nearly \$10 in December 1998, that it would then rally to \$100 by 2007. The SEC, CFTC, **O'Melveny & Meyers LLP**, Judge Richard Owen, and Alan Cohen of **Goldman Sachs** ALL objected, and the request of the **Department of Energy** was denied and that is part of the court record of October 3rd, 2000. Why would the SEC & CFTC and the NY banks not want that forecast out or for **Princeton Economics** to aid the **Department of Energy**? Well that is anybody's guess! But we can look at the Forecast Array that was published back then and see that 1999 was the big target with the next one coming up as 2007. While the high was 2008, the computer was only projecting out to 2007 at that time and 2007 remained the highest year-end closing.

The gold **Forecasting Array** shows how the computer was projecting the 1998/1999 low (98=closing low/99=intraday low). These are not personal subjective calls that justify chest pounding. This is the cold unbiased and unemotional projections of the model. This is what they wanted silenced. The government listened to the NY boys and called this "manipulating the world economy" simply because it can project out decades into the future. It did not matter if they killed me. Shutting me up did not prevent the forecasts from taking place. When 2007 hit, they were calling it "**Armstrong's Revenge.**" Trying to learn from the accumulative knowledge of all generations that went before us is something the manipulators are not interested in at all. They want to keep the public, government, and the press barefoot, stupid, and pregnant with false information.



We then introduced the **Market Watch** that our institutional clients loved. The computer would provide a 5 page overview of each market around the world and provide its status on demand at any time. For a big portfolio manager, this proved to be a lifesaver. At a glance, this would warn if a crash was possible on what level of time. Now the NY boys really hated our guts.

Global Market Watch

World Share Market Watch	M	T	L	T	C	S	S	S	S	WEEKLY	M	T	L	T	C	S	S	S	S	MONTHLY	M	T	L	T	C	S	S	S	S	QUARTERLY
S&P500 Futures	*	*	+	+	53	52	62			Temp High	+	+	+	+	87	87	83			BULLISH UPTREND	+	+	+	+	90	91	92			Bullish Rally
S&P500 Cash	*	*	+	+	51	53	65			Further Decline Likely	+	+	+	+	89	91	84			Still Holding	+	+	+	+	90	91	92			Bullish Rally
DJ Industrials	*	-	+	+	69	71	79			Further Decline Likely	+	+	+	+	90	89	80			Holding Support	+	+	+	+	87	88	89			Bullish Rally
DJ Ind Futures	+	+	+	+	91	93	87			Losing Momentum	*	*	*	*	0	0	0			N/A	*	*	*	*	0	0	0			N/A
DJ Transports	-	-	*	+	32	38	38			BEARISH	+	+	+	+	71	70	61			SPIKE LOW	*	*	+	+	58	56	50			RALLY
DJ Utilities	*	*	+	+	87	91	84			Turning BEARISH	+	+	+	+	91	69	69			CAUTION	+	+	+	+	89	92	86			Holding Support
NASDAQ Composite	+	*	+	+	54	52	60			BEARISH	+	+	+	+	90	89	85			BULLISH	+	+	+	+	90	91	90			Holding Support
NASDAQ Futures	+	*	+	+	57	51	57			BEARISH	+	+	+	+	89	88	87			SPIKE HIGH	*	*	*	*	0	0	0			Consolidate
Phila Internet	+	+	+	+	71	77	80			Bullish Rally	*	*	*	*	0	0	0			N/A	*	*	*	*	0	0	0			N/A
Russel 2000	+	*	+	+	86	85	80			OVER BOUGHT	+	+	-	+	61	58	52			BULLISH	*	*	+	+	57	63	77			Bullish Reaction
Gold-Silver Ndx	*	*	*	*	22	21	52			Caution	*	*	-	-	37	35	32			Holding Support	*	*	-	-	16	16	21			FAILED RALLY
Oil&Gas Ndx	+	+	+	+	90	90	78			Still Holding	+	+	+	+	63	44	38			BREAKOUT MODE	+	+	+	*	75	75	52			BULLISH FOR NOW
Argentina	+	+	+	*	80	87	75			WARNING POSSIBLE DECLINE	+	+	+	+	55	45	53			BEARISH	*	+	+	+	65	68	68			POSSIBLE TOP
Brazil	*	+	+	+	56	58	71			Further Decline Likely	+	+	+	*	83	75	55			Encountering Resistance	*	*	+	*	48	48	51			Turning Up
Canada TSE	*	-	+	+	70	71	74			Further Decline Likely	+	+	+	+	62	56	48			Losing Momentum	-	+	+	+	57	63	76			New Lows Likey
Chile	+	+	+	+	88	90	82			Within Support	+	+	-	+	37	29	34			BEARISH	-	+	+	+	42	46	46			Bearish
Mexico	*	+	+	+	88	91	91			POSSIBLE DECLINE	+	+	+	+	79	70	53			IMPORTANT HIGH	+	+	+	+	65	64	76			Forming Base
FT Futures	*	*	+	+	59	55	59			Moving Lower	*	+	+	+	86	88	79			Still STRONG	+	+	+	+	83	83	86			Higher Prices Possible
FT100 Cash	*	-	+	+	67	61	63			Temp High	+	+	+	+	89	90	81			Holding Support	+	+	+	+	85	84	86			BULLISH
DAX Futures	+	+	+	+	76	70	68			VERY STRONG	+	*	*	+	56	53	54			Strong	*	+	+	+	67	73	82			Bullish Reaction
DAX Cash	+	+	+	+	75	69	68			VERY STRONG	+	*	*	+	56	53	54			Encountering Resistance	*	+	+	+	68	73	82			Bullish Reaction
CAC40 Futures	+	+	+	+	82	78	74			Possible Significant High	+	+	+	+	92	89	80			SPIKE HIGH	+	+	+	+	81	81	82			Turning Up
CAC40 Cash	+	+	+	+	80	78	75			Possible Significant High	+	+	+	+	92	90	80			VERY BULLISH	+	+	+	+	81	81	81			Consolidate
Swiss Futures	+	-	*	*	53	45	43			Testing Resistance	*	+	+	+	59	59	59			Consolidate	*	+	+	+	68	74	73			Further Decline Likely
Italy MIB	*	-	+	*	52	46	54			Reaction Rally	+	*	-	-	17	15	28			Bearish	-	-	*	*	37	51	41			Still Under Pressure
Australia All Ords	+	*	-	+	31	26	43			BEARISH	*	+	+	+	81	86	88			Still STRONG	+	+	+	+	82	81	83			BEARISH
Australia SPI Futures	+	*	-	+	31	24	41			BEARISH	*	+	+	+	80	85	79			Still STRONG	+	+	+	+	81	80	82			BEARISH

I am grateful for all the help of former clients who have been gathering publications from the decades past. They have taken on a project to bring together everything the government has sought to destroy. I would especially like to Erwin Pletch for his invaluable help in gathering research materials. His effort has been truly invaluable.

Trying to catch up to speed is not going to be easy. Just trying to write has been a battle. So far, there is nothing out of line just yet. There is no doubt that we are living in interesting times that is most likely a curse. And for those who may think this is some new forecast, in May 1995 we were warning that it was truly the **Death of Socialism** that we faced – the **Sovereign Debt Crisis**. We warned it should first appear 2007-2011, and that now seems to have been another correct projection by the computer.

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The World Capital Market Review

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The Death of Socialism & the Plight of the World Capital Markets

by Martin A. Armstrong

There is little doubt that the overall outlook for the world capital markets has been anything but the steady path of the past. While gold rallies, the stock market soars and the dollar collapses, confusion reigns supreme in a world that many would have a hard time denying is at least somewhat strange. In fact, you can put 20 analysts in a room and they would most likely fail to reach a consensus on the perils of the present. Nonetheless, the one unanimous conclusion that would surface is the fact that something is seriously wrong.

For years we have focused upon the role of the central bank both in the private sector as well as from the political perspective. But this fascination with the central bankers of the world is slowly giving way to reality. Perhaps no other society believed so much in the power of the central bank as that of the Japanese. Just 10 years ago when I would deliver a lecture in Tokyo and forecast a minor swing in the yen of 3% or so, the arguments that I received were NEVER based upon analysis or even a difference of opinion relative to an interpretation of capital flows. The argument that was always made simply centered around the belief that the central bank would not allow such a swing

to take place. Today, Tokyo has joined the ranks of the global community faced with the harsh reality of the fact that central bank intervention does not work and as such the central banks are not in control of the currency no less the world economy.

The question that begs to be answered is simply this: If the central bankers are not in control of the economy, who is? The ironic answer to this question is nobody and this basically means that no single person, entity, agency or group is controlling the domestic economy in any nation no less on a global scale. However,

THE ECONOMIC BEHAVIOR

TAXATION WITHOUT REPRESENTATION

Government grows more punitive when taxes rise above 25% of GDP

Government Growth Rate increases sharply as taxes extend 25% of GDP

Capital Flight begins when taxation rises above 25% of GDP

Economic Growth begins to slow when taxes rise above 25% of GDP

ECONOMIC BEHAVIOR

Government's Static Tax Curve Assumption

100%
80%
60%
40%
20%

REVENUE AS A % OF TOTAL GDP

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The World Capital Market Review

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Was July 20th a Major High? Or just Another Mini-Correction?

by Martin A. Armstrong

While many of our clients are still in shock over our model's precise forecast to the day for a high as of July 20th 1998, more than 4 years in advance, the question now arising is exactly what does July 20th represent from a global perspective? Some have argued that this forecast was a total coincidence because nobody could possibly make such a forecast. Others want to hold up a silver cross and hope we just go away, fearing that such precision might contradict established beliefs.

The truth of the matter is far more complicated than meets the eye. We fully agree that no individual is capable of making such a forecast as precise as July 20th if based solely on a personal opinion. However, July 20th is only one in a series of forecasts that this model has made precisely to the day such as October 19th, 1987. What is at stake for us is not trying to be the latest guru. You won't find us on TV saying we told you so. What is far more interesting is that beyond the implication of this model for forecasting lies the sense that just perhaps there is far more order within the global economy than is generally assumed.

So instead of proclaiming that precise long-term forecasting is impossible and no one should dare try this at home, at Princeton we believe that cancer will certainly not be cured unless you at least try. Where the individual may not be able to make such precise forecasts, our super computers have proven otherwise.

People Dislike Change

When it comes to the pursuit of knowledge, the majority is never eager to accept change. If you look at the field of astronomy, you find that Copernicus and Galileo lived in fear of

their lives for suggesting that the physical world might be different from the beliefs of the majority. In archeology, every academic laughed at the thought that Homer might possibly be a real account from history and quickly ridiculed anyone who suggested otherwise. When Heinrich Schliemann took Homer and set sail from Greece in search of Troy, the academics called him a foolish man with too much money. Still, Schliemann not only discovered Troy, but also just about every major ancient Greek City mentioned by Homer. Academics accused him of falsifying his discoveries. And of course it was also said that Einstein was merely a dreamer who would amount to nothing. Most academics have a long history of resisting change.

When it comes to the field of economic forecasting, man remains very much in the dark ages. The academics have a vested

Princeton Economic Confidence Model

1996.4 1998.55 2000.7

12/1/94 (1994.48)
 08/03/95 (1994.48)
 08/22/96 (1994.37)
 02/09/97 (1997.11)
 10/02/97 (1997.48)
 07/20/98 (1998.55)
 6/4/00/99 (1999.259)
 12/27/99 (1999.309)
 09/15/00 (2000.709)
 06/06/01 (2001.429)
 02/27/02 (2002.149)
 1/17/03 (2003.839)

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For you see, it doesn't take God to whisper warnings in your ear when you sleep. It's truly a matter of just math and that 3 year old with a pocket calculator could have figured this one out. It may require our computer to provide the correct timing, but as far as the **Sovereign Debt Crisis** is concerned, anyone outside of government should have gotten that one correct. If they didn't, well then they probably don't know how to use a calculator.

The real tough forecast is **NOT** that the sky will fall. Nor will it even be **WHEN!** The real tough call is what comes **AFTER** the fall? Will this be a Bonfire of Humanity, or a stepping stone to a new era? **"To be or not to be,"** to quote **Shakespeare**.