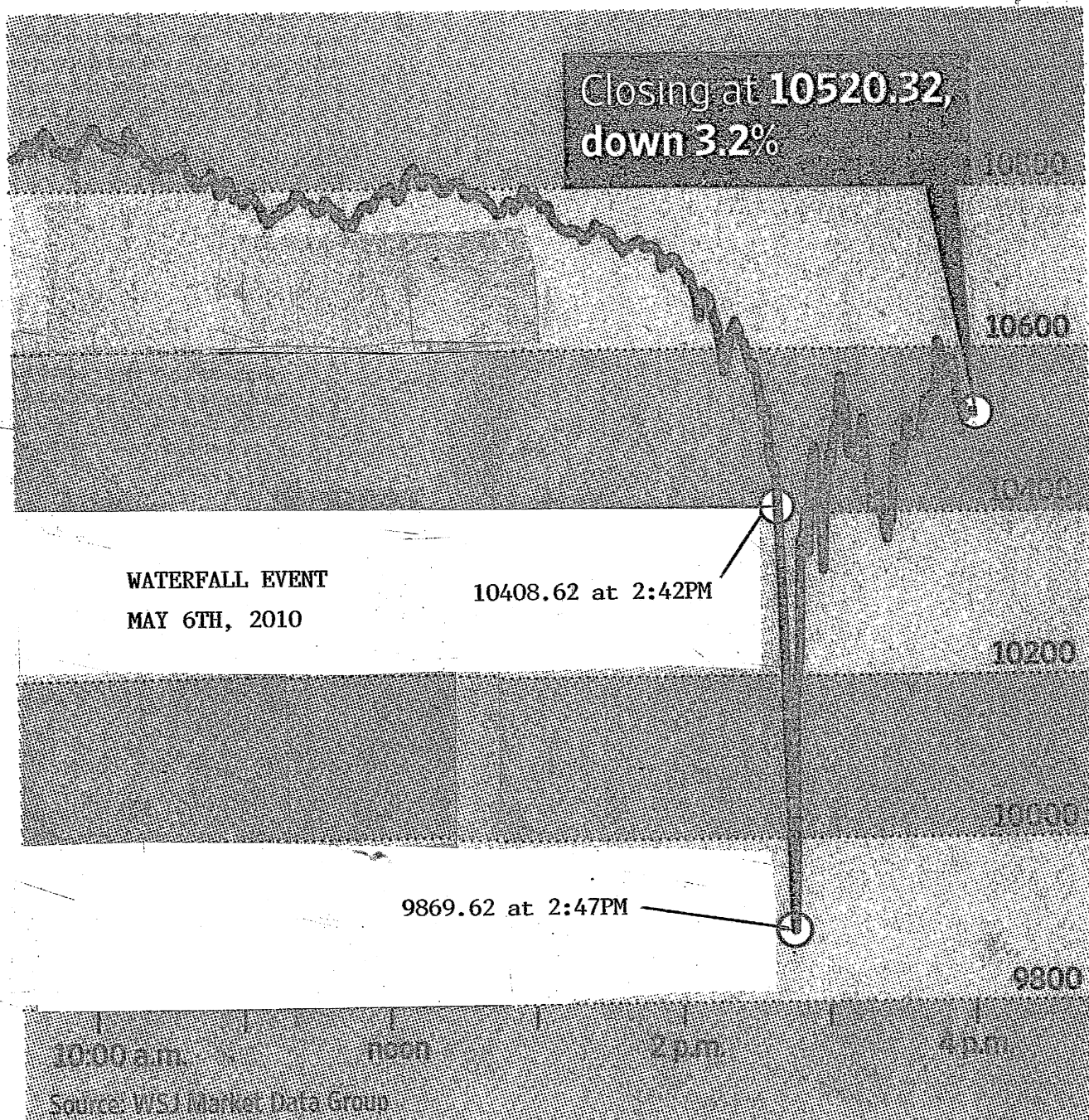
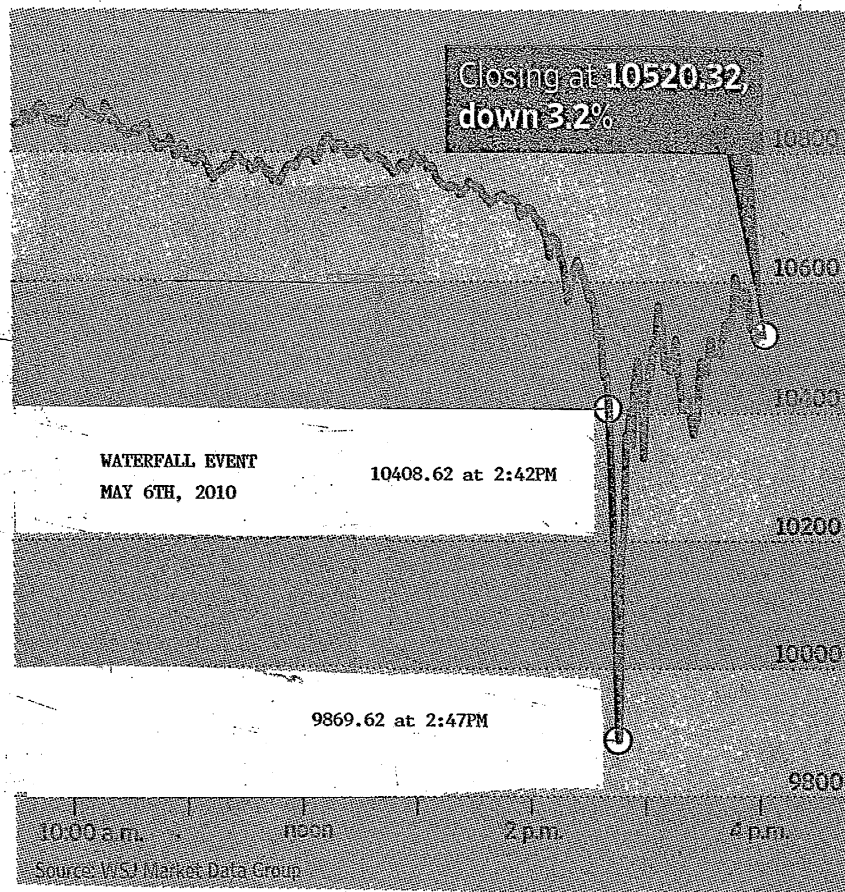


Armstrong Economics™

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Former Chairman of Princeton Economics International, Ltd.



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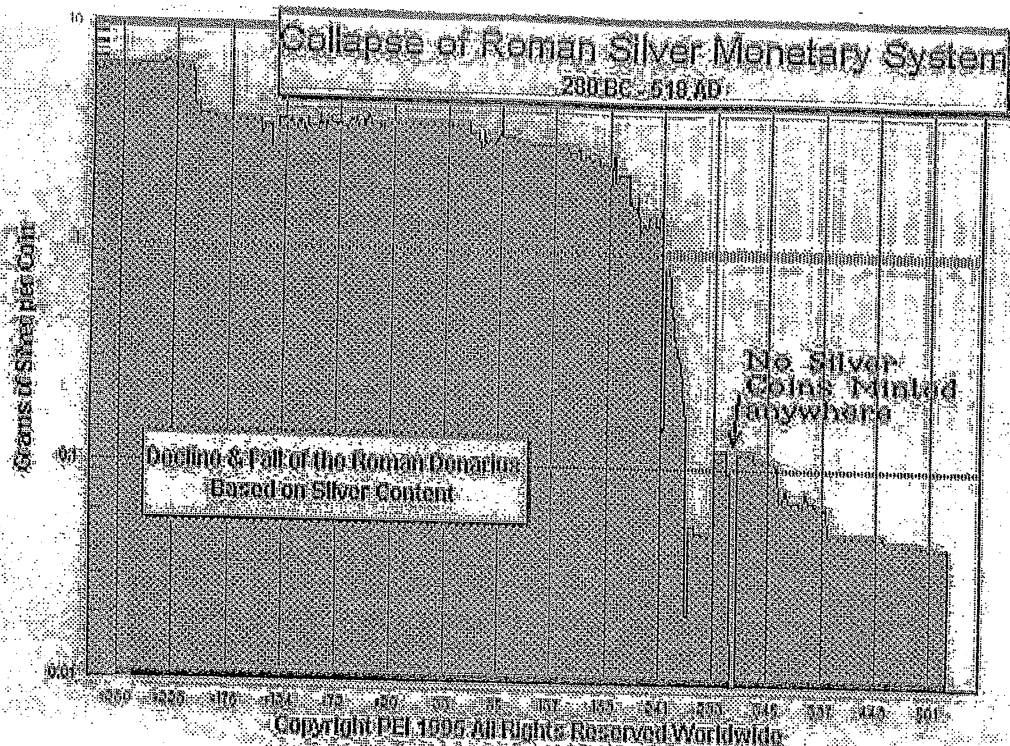
By: Martin A. Armstrong

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B AFFLING price movements in the Dow Jones has the talking heads talking to themselves. They are trying to explain normal moves with exceptional and extraordinary accusations of heavy fingers and mistakes by traders that sent the Dow Jones Industrials crashing to 9869.62 from 10408.62 between 2.42 and 2.47pm on Thursday, May 6th, 2010. The truth is in the charts. Unfortunately, the chart of the intraday price action shows nothing that is abnormal. This was a classic WATERFALL that emerges in times of a collapse in Public Confidence. As I put out in a quick report on May 6th, this was an event driven by Greece no matter what anyone says. If someone's fingers got stuck in the cookie jar, that's nice. But the pattern is one that shows NOTHING that is out of the ordinary.

What is taking place is international in scope and those who wish to search for domestic causes, well they are probably the kids who felt cheated on Eastern egg hunts. Europe is in danger of falling apart and because most analysts are from the big so called houses who do not fund real research, we can't expect revelations right now. At Princeton Economics we spent even 10 years ago more than all of the big banks put together when it came to research. It takes a major global effort to understand how capital moves and that costs HUGE bucks.

The only way you are going to understand these movements is by global models. The answer will not be found domestically. I am urgently trying to finish a book that I have settled on a title - In the Blink of an Eye - How America Can Collapse Overnight. The trust of this work is to a key extent, what we have seen on May 6th, and the aftermath. Abrupt moves are part of how markets and nations rise and fall. We woke up in 1989 to startling changes in China, Russia and the fall of the Berlin Wall. There was no warning. Just shit happens!



The above chart of the Roman Monetary System today would cost in out-of-pocket expense well beyond \$100 million to create. The importance is the pattern. We are all familiar with the spike highs created in bubble tops such as NASDAQ in 2000, the Nikkei in 1989, Gold in 1980, or Housing in 2007 just to mention a few. But those are Phase Transitions to the upside. Most of the seasoned traders have seen these type of patterns. Most will then look for the fall. There will be those who constantly call for the repeat of the Great Depression and how the stock market will fall to 10 cents on the dollar because that is what happened in 1932. Like a broken record, they come out of the woodwork with their signs - REPENT THE END IS HERE! They are fixed on destruction and can see only one resolution. They are captivated by their own myopic analysis that is limited to domestic events as always.

The WATERFALL pattern is the opposite of the spike high. It is far more devastating to say the least, for in its wake, there is profound change. This is how nations die. While I will save the example and details for the book, this pattern is showing up far more frequently on the various levels of price activity and this is in itself a real warning of what is to come.

When a major pattern such as a critical one as this WATERFALL EVENT is concerned, it begins to show up in short term levels of activity before the big one happens. The pattern of May 6th is the same pattern as the decline and fall of Rome. This is showing we are acting in the same manner and just as people panic intraday, this is how they will eventually act on the monthly level that is on the horizon.

Capital is confused because of all the bullshit spun by the various news services. They try to relieve everyone by claiming somebody had entered trillions instead of millions. But these type of explanations are design to eliminate the truth. What is taking place is that capital is moving faster and faster in this global economy. VELOCITY is increasing and eliminating the ability of nations to even control their money supply. International capital can effect the money supply by at least 25% and when leveraged on a fast-track, who knows the real effect. The driving force behind this is CONFIDENCE and that is the key to everything. It is the key that will wipe-out the plans of all Western governments and is going to force a complete restructuring worldwide. There is NO intention of paying off any debt by any nation. It's just one big joke.

The US Government would rather see me dead before they will ever listen. Why? It is a question of power. They do not like what I have to say and fear there are too many listening. It may be a message they do not want to hear, but it matters not what they do to me, they will not stop the economic events on the horizon.

The attempt to downplay Greece by pointing out that Greece has the same GDP size as Philadelphia. By using this example and having their shills try to confuse the public, they are only making the likelihood of a complete meltdown more likely. Instead of conducting hearings on the future, no, that may result in having to give up power. We can't talk about that.

Greece has to borrow from other states to fund its budget because it cannot live within its own economy. HELLO! Are we not doing the same thing? What happens when the USA finds itself in a crisis because Japan can no longer buy US debt due to its own economic debacle and China goes into also a recession and runs out of spare change? Will not the US then look like Greece on a giant scale?

The city of Oakland, California is also bankrupt. It is a state of meltdown due to the pension costs and as the economy is turning down, the city need to raise more taxes. This is the same story all over the place. Even social security turned negative on a national level.

I am NOT the doomsday guy. When the 1987 Crash took place, the vast majority of the pundit were calling for the depression. The day of the low, not only were we asked to rush a report to Washington on what would happen next, but suddenly our institutional brokerage house clients pleaded with me to do public seminars. They want to get our message out that the low was in place and new highs would unfold. I agreed after we discussed the problem in the office. I then gave lectures around the world with audiences that surprised the brokerage houses and myself. I gave lectures in Toronto and then in Vancouver with attendance exceeding 5,000. In Australia, I lectured before audiences that exceeded 5,000. I traveled everywhere from Europe to New Zealand. The message was there would be no Depression.

Even Steven Mihans of the Commodity Futures Trading Commission asked me to testify on their behalf before Congress. Why? The model not merely predicted the precise day of the low for the 1987 Crash as October 19th, 1987, what it did was far more significant. It projected new highs!

That message may not be appreciated by many. But to me, it was more important than picking the precise low. This is the same thing I warned at the low in this market.
WE WILL SEE NEW HIGHS AND NO DEPRESSION!

While the doomsday boys roll out every chance they get and yell REPENT, REPENT, the truth is about as far from what they have said at every possible moment the market has made short-term corrections.

This is a DEBT CRISIS and you better start understanding what the hell that truly means. Capital is confused. The market made its crash because at first blush capital in domestic hands listens to the nonsense spun by the shills for the government. This is a INTERNATIONAL DEBT CRISIS and that means we are facing a crisis in international capital that will fly instantly to quality. That is why the dollar and gold will rise, and why YES, the stocks will rise as well!

What made the 1987 crisis nuts, was the market-makers (specialists) in stocks began to withdraw due to the volatility. Market-making is NOTHING close to the story told by Goldman Sachs. To Goldman, market-making is anything trading with clients. That is total bullshit and they are doing more to destroy the industry just so they can continue proprietary trading than any firm I have ever seen in my 40 years in this industry. Market-making is playing the spread in specific instruments. It is not trading for speculative gain. When market-makers withdrew in 1987, volatility rose for now trades were just getting matched. I saw trades in options go at \$3,000 and the next print \$200. The market-makers withdrew and buy-at-the-market-orders were now matched with an order to see at a specific price.

The two big firms who engage in high-frequency trading, Tradebot Systems, Inc and Tradeworx, Inc, account for well over 5% of the total trading volume. Both system shut down due to the high volatility.

When the market-makers withdraw, the prices swings will widen because what takes places then is liquidity dries up. This now enables wilder price swings and greater confusion. When we look closely at the key chart for the intraday move, there is just NOTHING out of the ordinary!

Our computer would have been screaming SELL by 10:30. It would have yelled again when the bounce from the 11 O'Clock low was minimal. Once that low gave way, certainly our computer would have been jumping up and down screaming SELL YOU DAM FOOL! This was clearly in the cards all before 1 O'Clock. The curve of the decline was unmistakably a WATERFALL and by 2PM, you needed a parachute or therapy, depending upon what side you were on.

The range on the day was 10,879.76 for the high, 9,869.62 for the low, with a close at 10,520.32. The 400 point rally closing at 10,785.14 on Monday may 10th, has clearly relieved the perpetual bulls and shown that volatility is alive and well, but it has not yet provided a buy signal confirming a low on May 6th will hold. For that, we need a closing back above 11,205. The key weekly closing number to watch is 10,832. A closing for a week beneath this will warn that we could still test the major support that is at the 9,600 area before making new highs.

Nevertheless, the CRITICAL point to comprehend is that we are in the middle of a very significant debt crisis. When the Euro was in the panning stages, a committee came and attended one of my lectures in London. They followed half of my recommendation, that interest rates be allowed to float individually on a nation by nation basis. What I warned about, was ONE-SIZE-FITS-ALL policies.

The Euro is acting like gold during the great depression. It has cut off the option of devaluation of the currency as the only alternative to permanent default on the debt. In 1931, most of Europe defaulted because they could not repay their debts in gold. Now it is the Euro instead of gold. It is the same crisis, just with a different twist. This is forcing austerity and that is more-likely-than-not, going to cause civil unrest that can lead to revolution.

I love Europe. I take NO PLEASURE IN seeing its demise. It is the bastion of civilization. It is the root of our culture and the last reservoir of reason. It has the pain of two World Wars and a flicker of life left that respect the sanctity of human rights. If Europe does NOT listen and restructures ending debt, it will be torn apart at the seams. It will break-up and the fingers will point in every direction reviving old nationalistic hatreds that were buried in shallow graves. TO EVERY READER IN EUROPE, IT IS TIME TO START JUMPING UP AND DOWN.

Gold is making new highs. The dollar is rising, and the stocks rebound in total confusion. This is how capital reacts in a international crisis. Capital will flee the Euro and rush into the US, Canada, and Australia along with gold. The spreading of capital will be diverse. This is the very evidence of what I am writing about.

There is only so much I can do given my current state of deliberate suppression. Nevertheless, suppressing me will not stop what is coming.

The doomsday boys who only see the Dow falling to 1400-2000 are lost in the crevices of their own mind. This is a international conflict. This is not domestic. The talking heads will confuse more people than anyone and what they speak is the same old bullshit over and over again.

The fact that we have see a WATERFALL EVENT intraday, warns that this pattern is going to manifest itself in higher levels of economic activity. Capital will at first rush into America for it can absorb it. This will swing the treasury bears who see only domestic inflation into losing positions. As they are forced into becoming bullish, then the capital flows will reverse once more and then we will see an outflow.

This is a international crisis and that means we MUST pay attention to currency. But it is ALSO a PUBLIC v PRIVATE DEBT CRISIS and that means we will see private assets such as gold and stocks, rise in value just as they did into 1980 and from the 1932 lows. The greatest danger is the destruction of capital formation cause by sovereign debt defaults on state, local, federal, and international levels.