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Forecasting the World

Are we Running Out Of Other People's Money

What happens now?

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

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Please send comments by mail to:

Martin A. Armstrong
FCP Fort Dix Camp
#12518-050
PO Box 2000
Fort Dix, NJ 08640

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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 broaden 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.

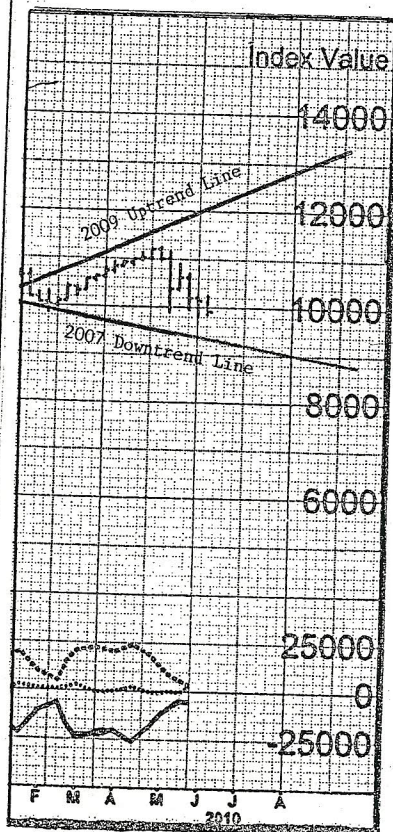
There is no hope that politicians will save us, for they only form committees to investigate after the shit-hits-the-fan. They will NOT risk their career for a future problem that may hit on someone else's watch. There was a politician and a average man standing on top of the Sears' Tower when a gust 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 global 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 flu.

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,

Dow Jones Industrial Index
Weekly - CASH

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



The Dow Jones Industrials (CASH) is showing that the big **TURNING-POINT** will be August. Thereafter, it appears that the opposite trend should unfold into Oct/Nov. The primary support lies at 9400 level and a monthly closing beneath 9675 will warn that the downtrend would become severe, but not new lows.

There are two primary resolutions. There is the crowd that is calling for the Dow to collapse and a Great Depression as was the 1930s. We must understand that all of the world defaulted on their debts with few exceptions (Britain called for a suspension of debt payments) France was the last nation to cling to the gold standard even after the US devalued the dollar under Roosevelt. The dollar rose because it was **GOLD**. Once Roosevelt confiscated gold, he introduced inflation and that sent stocks up between 1932 and 1937.

Therefore, if the Depression were to repeat, the Domsday Boys got it wrong! Capital flight was to the dollar because it was **GOLD**! That's it! Therefore, it is **GOLD**, not the dollar, that would soar in price!

In the book I am rushing to get done, I go over also forgotten Depressions of the 1340s and the Financial Crisis of 1557 to 1647. This was the period of a series of sovereign debt defaults from Spain and France. In fact, it was so bad, France could not borrow a dime in 1574.

Short-term, there is a potential for the Dow to make a low in early June and then rally into August with the traditional drop in the Sept/Oct time frame. However, making new lows beyond the week of June 14th, will warn of a August low. A key week appears to be the week of August 2nd.

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SPECIAL UPDATE REPORTS BY EMAIL

Because of the dramatic increase in volatility, a **SPECIAL UPDATE REPORT** has been created on a specific market outlook. As we head into the economic storm of **Sovereign Debt Crisis** that is brewing around the world, it is going to be critical to be able to address key events on a more timely basis. Everyone is invited to sign up for this **FREE** service at:

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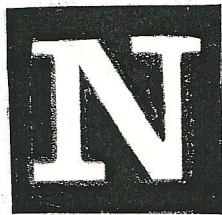
This will cover the world markets and economies. Please sign up as soon as possible. The event horizon is coming in rapidly. We need to stay vigilant to survive the years ahead for government will only form committees **AFTER-THE-FACT** to investigate why something happened. They will **NEVER** take steps to prevent an obvious economic crisis. We are on our own. The best course of survival is to stay **INFORMED** and to understand the nature of what is taking place since no one should ever follow anyone blindly. This is all about educating what is the new reality.

Are we Running Out Of Other People's Money

What happens now?

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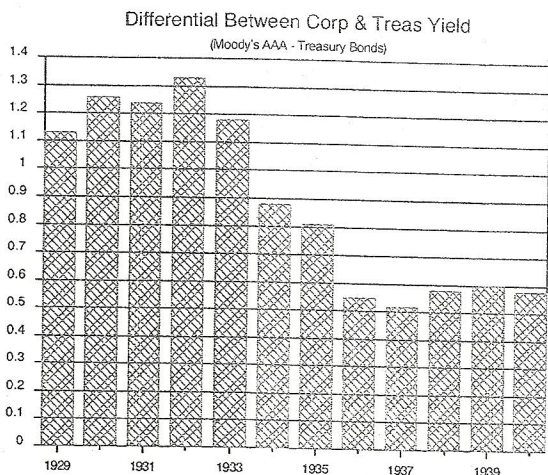
Former Chairman of Princeton Economics International, Ltd.
and the Foundation For The Study Of Cycles



NEVER DOES HISTORY REPEAT PRECISELY THE SAME WAY TWICE! There is always a difference because the global economy is truly a giant **Complex Adaptive System** that is forever changing. There are a set of **LAWS** that I intend to publish that are constant. Yet, even though there can be constant laws, they apply without regard to culture, nations, or empires. It was **Niccolo Machiavelli** who wrote in his first work: "The world has always been inhabited by human beings who have always had the same passions." **Del modo di trattare i sudditi della Val di Chiana ribellati**, 1503. (He wrote the Prince in 1513). This phrase by **Machiavelli** is an observation that I myself made, and soon discovered that most who have truly studied the past, come away with the same realization. **For as much as things change, they remain very much the same.** In other words, who is the ruler and the ruled, often change places through revolution, but as John Quincy Adams once said: We have conquered the enemy. We occupy their hill. We have become the enemy. There are just laws governing human nature that are constant. What changes is merely superficial insofar as which country is on top of the hill at that moment, and in what sector capital concentrates as the flavor of the time. But while the instrument and nation may change, our "passions" dictate the same outcome everytime.

So will there be a Great Depression? The answer is **YES & NO!** What gibberish is this you say! Some nations will suffer inflations and others deflations. This is a contest that is eternal and goes against the normal idea of what is even a depression. For you see, there have been many depressions throughout history. 1929 is by far not the worst nor is it the standard. What took place then is not

going to repeat exactly the same way. Those who simply pull out a chart of the Dow Jones are confusing a lot of things. Not merely was there a **Sovereign Debt Crisis** in 1931, but there was the advancement in technology that was eliminating jobs in the agriculture sector, the dust bowl, and the fact that the dollar was NOT the dollar, but it was de facto gold! Most such events are NOT present today!

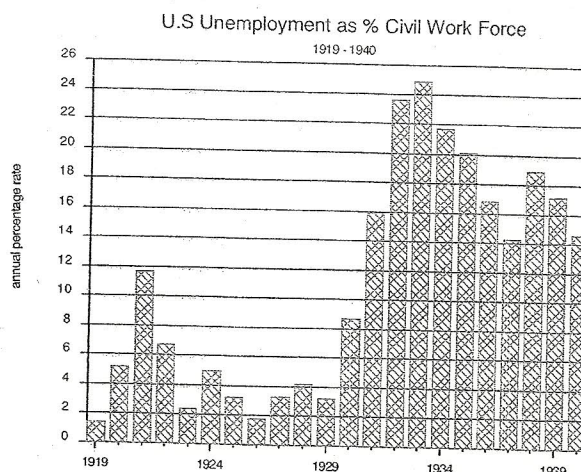


Because of the **Sovereign Debt Crisis**, the great fear back then was what would happen to the dollar. When all of Europe defaulted but France and the United States, it was assumed that the US would be next, even though the issue was not DEBT, but whether or not the dollar would be convertible.

The "flight to quality" was NOT to the dollar or to government bonds on a constant basis. It is true that this was the first reaction between 1929 and 1932. However, in 1932, that began to change. The stock market began to rally going into 1937 because (1) devaluing the dollar relative to gold would cause those tangible assets held by the corporations to rise in value and thus the stocks were UNDERVALUED. Therefore, stocks rose in value as a hedge against the decline in the value of the dollar relative to gold.

(2) The flight to quality now changed because of the capital was NOT going into the dollar or to government bonds. Why would capital buy that which it expected to drop? Thus, the studies we conducted at Princeton showed that the flight to quality post-1931 was to private assets and that meant even into corporate bonds.

Pictured above, you will see a chart of the Differential Between Corporate and US Treasury yields (Source Greatest Bull Market in History, 1986 by Martin A. Armstrong). You will notice that the spread peaked in 1932. Not merely did the Dow Jones decline into 1932, but the full faith and confidence in corporate v government debt also declined. However, in 1932, the "Flight to Quality" then flipped and now became public v private.



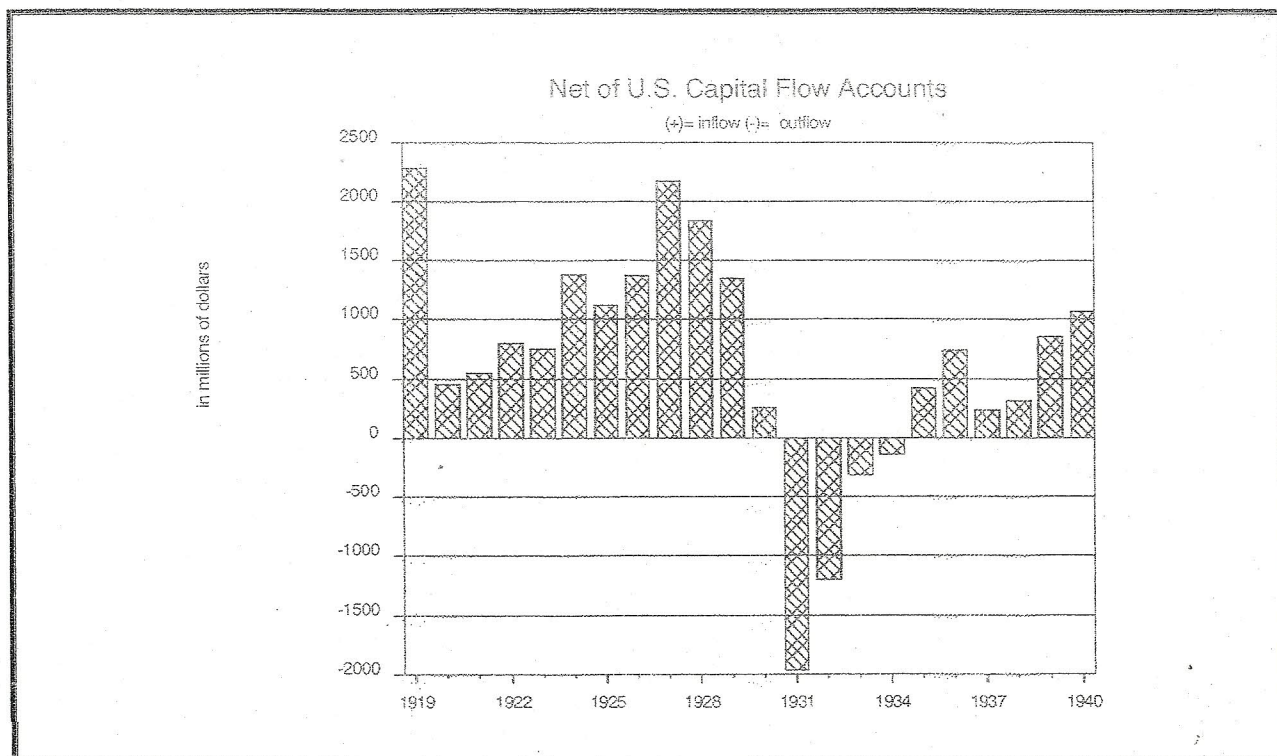
As Johnny Depp said in his latest movie "nothing is permanent, not even death." At least economically, he is very correct. Not a single aspect of anything is ever constant insofar as a relationship of any instrument or performance of the political economy in any nation.

It is true that unemployment rose during the 1930s above 25%. But the cause of that trend was NOT the fall in stocks. We can see that the peak was in 1933 **THE YEAR AFTER THE STOCK MARKET LOW IN JULY 1932**. Thus, we can sleep at night knowing that all the big economic numbers can still get worse yet the stock market can rise. It's one giant act of balancing everything against everything else.

So we must investigate behind the talking heads. When we do, we find that (1) there was an environmental catastrophe that was far beyond any politician's power to even investigate. What were they going to do? Subpoena God for withholding rain creating the dust bowl? (2) there was the impact of the combustion engine. Now farms could just replace hundreds of workers with a tractor.

The effect of the industrial revolution upon agriculture was monumental. In the mid 1800s, 70% of the work force were agrarian. By 1930, it was 40% and by 1980 it was 3%. Both weather and technology conspired to deprive workers of their jobs.

The similarity of this Depression to the whopper of the 1340s is uncanny. Here too we have Sovereign Debt Defaults from England and Naples, Italy. This wiped out



ALL three banking houses in Florence (Medici came to power picking up the pieces). This Sovereign Debt Crisis began the move of the financial capitol of Europe from Italy to the North. The next Sovereign Debt Defaults were Spain and France in the 16th Century. They nearly destroyed the German banking house of the Fuggers. This completed the shift in the financial capitol to the Dutch.

However, the Great Depression of 1340s was made far worse for thereafter the attack on the Black Sea colony of Genoa, catapulting dead bodies from a plague into the colony, caused the Genoese to flee and taking the new Black Plague with them back to Europe. About 50% of the population was killed. So much so that the strange event of plague is what gave birth to capitalism for now labor became a rare commodity.

Just as it was World War II that indeed restarted the economy after the 1930s, it was the Black Death that killed so many creating a labor shortage that rebooted the economy. Both then followed the same path with rising inflation that became widespread. But BOTH had the same effect, population reduction.

In putting the world economy together over the centuries, certain common trends emerge that become standard **LAWS** for it does not matter the time period, the patterns are

always the same. The common denominator is human emotions/passion. We act the same way to similar events all the time. I find it startling that government and economics always try to reinvent the same wheel. At no time will anyone just ask: Has this been tried before? If so, what was the outcome?

The CIA wanted Princeton Economics to construct a model for them, they acknowledged that **Capital Flow Analysis** was invented by our firm. Above you will see a chart also from the 1986 Greatest Bull Market In History. This shows the flow of capital into and out of the United States between 1919 and 1940.

Capital fled to the USA for World War I. After it was over, capital began to return to Europe, but by far, it was still coming to America. That peaked at nearly World War I levels in 1927, Europeans were starting to sell US assets going into the high for 1929. It turned negative going into 1931 as gold was recalled due to the crisis. AFTER the dollar devaluation in 1934, capital flows returned to positive and would continue into World War II. By Bretton Woods in 1944, the USA had 70% of all world gold reserves.

Capital flows away from anticipated crisis economically. Capital is flowing to the dollar right now. It is curiously going into PRIVATE assets, bonds, and even mortgages.

Why? The **EURO!** If the Euro cracks, things are going to get really nuts. This could be very dramatic for gold and the dollar. Why? If a country wants to pull out or can no longer sell its debt for a default, what currency will they then use domestically if one does not exist? I suspect, they will use the Euro just as Russians used the dollar in an underground sort of way, but if the Euro crumbles, we could see real chaos and a scrambling for dollars and gold.

Will we end up with a ONE WORLD CURRENCY? Most likely. I would argue for a global type of reserve currency used among nations as gold use to be under Bretton Woods. There is NO possible chance for a ONE WORLD CURRENCY that anyone would use in all nations to go to the store and shop. The very reason Greece is in trouble as many other countries and states such as California, is they cannot devalue the currency (Partial bond default) for they have no control over it. This implies that they have to default on their internal budget programs - MARXISM - Socialism will die.

There is a risk that the dollar could rise extremely high back to 1985 levels and that would be deflationary. However, this would be a short-lived spike. The dollar would then crash and burn and we would swing very fast back toward very high inflation.

UNEMPLOYMENT is likely to still rise but it will NOT come from agriculture nor even from the menial job market of the private sector. Unemployment is likely to rise this time from **GOVERNMENT WORKERS!**

So if the question is: Will we see a Great Depression like the 1930s? The answer is NO! Will there be wild swings? Absolutely. The volatility is going to be very, very high!

I try to stay as far away from personal opinion because this is stuff that cannot be left to personal visions. Opinions are nice. But everyone has one, as they say, just like assholes. We are in a VERY SERIOUS period of change. It is NOT Capitalism that is dying, it is Socialism. As Margaret Thatcher said, Socialism works until you run out of someone else's money. Well, that day has arrived.

The Government is stepping up its tax prosecutions confiscating everything they can get their hands on. Sorry! You can declare all wealth belongs to the state as Roman

Emperor Maximinus (235-238AD) tried. It did not work. It killed the economy driving cash underground and reducing VELOCITY that then set in motion the collapse of the entire Roman economy. The ANSWER is NOT harrassing the people. Socialism is DEAD! It is time to embark upon a whole new monetary system to save society, and we can still have the safety net if the bullshit stops. Otherwise, this program to pay 10% to anyone who turns in somebody else, is turning man against his brother and will succeed in destroying ALL Western civilization and culture. This is NOT EAST BERLIN. You cannot turn society into a bunch of spies as did Maximinus.

Because government will NEVER even dare hold hearings to consider reform before the shit-hits-the-fan, there is a danger of a complete meltdown where what reemerges is a new age from the ashes of destruction. We can avoid that outcome if we stop the damn corruption and clean house. That has been done throughout history that does not at all require a bloody revolution. If things are delayed and the babyboomers wake up as see they have no future because the government cannot honor its promises, then things can turn violent. These are the patterns of history. They are driven by the passions of those effected.

Stopping shy of the full scale meltdown, is possible if we are practical and reasonable. We have to stop this war between Democrat and Republican. BOTH are wrong! It must be a time now for the people to save the future.

We will see high volatility that will take us in both directions. YOU MUST come to understand this. NEVER get wed to one direction. That will be your DOWNFALL. We are living in interesting times.

So no. There will be no Great Depression. This is the dawn of a much more profound age. This is the **DECLINE AND FALL** of socialism no different that the fall of communism. It is just our turn. The idea is not wrong that we have a charitable view toward others. But it is wrong to force that idea through law. Liberty must be preserved. We can fund the programs, but not through borrowing. We now depend upon other nation's to fund the debt the same as Greece. We have the same problem, just on a giant scale. **VOLATILITY** now rules!