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Forecasting the World

# Has the G20 Realized that the Philosopher's Stone is just a Dream?

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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.

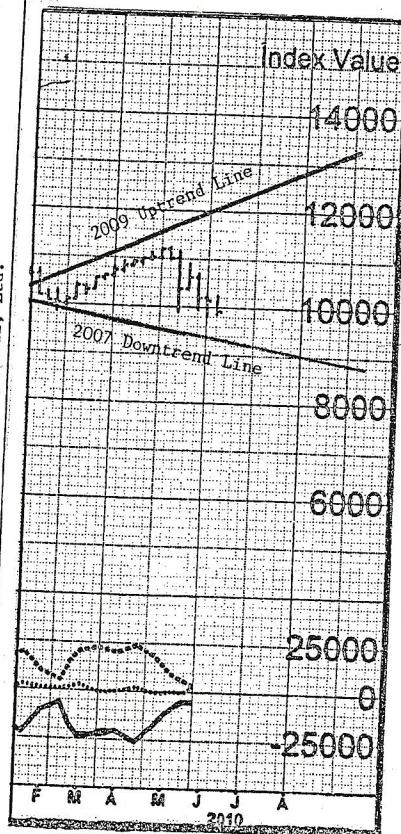
At Princeton Economics, our mission was simply to gather global data and to bring that together to create the world's largest and most comprehensive computer system and model that would monitor the world capital flows. By creating that model, all the fallacies of market and economic theories were revealed. 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

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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.

# Has the G20 Realized that the Philosopher's Stone is just a Dream?

By: Martin A. Armstrong

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**E**VERY once in a while, the truth can be seen when you look closely between the lines. Many of my overseas sources from years ago are gathering information that is very interesting. While the major headlines portrayed that the G20 agreed to cut deficits by half by 2013 has given the Euro a bit of a lift and caused the insane optimists to run naked in the streets yelling the sky is not going to fall, only illustrates the triumph of hope over experience. The serious problem we have is that cutting deficits in half is nice, but we are proceeding down a road of complete disaster because there is absolutely no plan to every pay back debts. John Maynard Keynes is often blamed for our current debt crisis. But let us put Keynes in perspective. Yes he advocated deficit spending ONLY during serious economic declines to raise aggregate demand. During recessions, he advocated cutting taxes, NOT deficit spending. The government listened only to what it wanted to hear and Keynes was blamed for the rest.

The government is out of control. We will be forced to revise the monetary system when the first debt auction takes place and the issue is not fully subscribed. Panic will then run through the streets. The government is counting on inflation to constantly reduce the real value of the debt.

Those who buy debt historically have always lost. Adam Smith in his last chapter entitled Public Debt points out that never had any country ever paid off its debt. They always and without exception, default. Even Japan defaulted in 1942. That also has been a dirty little secret.



The history of national debts reveals that post-Dark Ages, this is where national debts actually emerged. Prior to the Dark Ages, there was no formal debt market. Most nations operated on the CONQUEST model. In other words, they funded themselves by conquest. They did not focus on developing economic activity. There was some who focused on trade such as Carthage. But most of the ancient economies were more than 80% agrarian. Solon of Athens in his reforms set out to show people that there were other areas to earn a living such as trades and professions in the 6th Century BC.

Indeed, Spain was the richest nation in Europe after the South American discovery of gold and silver. They collapsed because they constantly borrowed against the next ship and they did not focus on creating an economy. They imported menial labor and industry did not emerge because people were too busy just living off the booty. When the booty stopped, Spain had nothing to show for it.

National Debts emerged with credit only with the Protestant Reformation. Where kings had borrowed to wage war like Edward III of England, they did so because they could not raise revenue and they wanted to wage wars of conquest. The borrowings were short-term. Long term debt began to emerge only with defaults. Some debt they could not pay and they demanded extended terms and reduced the interest owed.

Governments always just borrow. They are truly the worst credit because they just never pay. Now with paper money, what they have discovered is long-term inflation. They are smart. They know that borrowing today will be depreciated with time. The United States National Debt stood at about \$1 trillion in 1980. Today, we have annual deficits greater. That means that all the debt accumulated from World War I and II, Korea and Vietnam, amounted to \$1 trillion. That has been now depreciated. So why in God's name would any investor buy government debt? Delusion?

Real WEALTH is created ONLY when the instrument exceeds the rest of investments out there. If the investment is merely just keeping pace with everything else, then you are NOT making money, you are merely tracking inflation. The CPI is so rigged that is not the true measure of anything any more. It is a fools game and debt is the government's version of the **Philosopher's Stone**.

What is taking place behind the scenes is that some governments are more practical and are beginning to see a debt crisis. You will not read that in the newspaper yet. It is their view not to put ideas out there. The slip of the tongue in Hungary was a rare moment that any official would talk about default. It's a confidence game and they have to keep the bullshit flowing.

Nevertheless, the mere fact that the G20 focused upon cutting the deficits on a worldwide basis, illustrates that there is rising concern behind the curtain. Sources both in the US government and in foreign government are all saying the same thing. There is a minority very concerned in the USA, but there is a larger proportion of those in government concerned outside the United States.

Coming to an accord to half the huge debt borrowings reflects the concern. It was the USA who was opposing claiming that spending was necessary to stimulate the global economy. That excuse did not win the day.

The assumption by governments that they have discovered the fabled **Philosopher's Stone** (the stone that would transform anything into gold), has led us to a debt crisis that will explode before 2015.

About 40% of the sales of homes in Florida are foreclosures. Unemployment is not declining and the improvements were government hirings for the census. The rise in unemployment that will continue appears to be from the forced downsizing in government more so than the private sector.

The central banks have been raising money by swapping gold at the BIS, some 349 metric tons since the first of the year. This shows they are strapped for cash and also reflects the debt crisis. China is diversifying its debt holdings by starting to buy Japanese debt. We also see Hong Kong companies starting to buy Japanese corps.

These are all warnings between the lines that all is not well. We have some very, very serious years ahead of us and volatility is going to get worse. It looks like August is still a key turning point, and we are compelled to watch the horizon.