

Answering Your Questions

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SOCIALISM COLLAPSE – WHERE TO INVEST?

These are the two main questions I have received of late. The reason I use the term “*socialism*” is largely because of the second part of the Marxist applied agenda. Marx actually disagreed with the Socialists and felt that leaving people with the title to their property didn’t quite go far enough. The problem is not being compassionate toward others. That is inherent in human nature. The very purpose of civilization is the coming together of people to share the burdens of life and the side-benefit that emerges is a collective synergy that advances knowledge. I have stated many times, what I have learned has come from my clients on a global scale by interaction. They compelled me to look at their problem in order to help and in so doing I had to see the world through their eyes. This enabled me to see the international virtual value of everything in the world. Just as traders arbitrage London and New York gold, everything is arbitrated globally, just not in formal markets. Decisions of corporations to invest or establish plants are done through the eyes of their host domicile currency. It would not make much sense to invest in Zimbabwe on the proposition that you can quadruple your money in local currency in the middle of a hyperinflation when the Zimbabwe dollar will drop by 99% in value in your own currency. So everything is relative and capital will flow globally like water until it reaches the best return for the risk. I will never forget a seminar I gave in Geneva in 1981/2 when some in the room I had to advice should sell gold due to their currency and others to buy.

I am not a right-winger who believes in letting little old ladies die of hunger or lack of medicine. If we cannot be rational in this regard, then there is no purpose to civilization for there is nothing shared and we ought to abandon the cities as did the Romans and return to a feudal world with no national states. So when I say this is the collapse of “*socialism*” it is not the end of being human. I speak of the political entity of centralize state control, the philosophy of Marxism that has misled mankind for at least 112 years. The downside of *socialism* is not the creation of national health, fire companies, social security, or even a public licensing for many fields and schools. It is centralized power the same that brought down communism. In some cases it is the tyranny of the majority, but usually it is political tyranny.

Government is an idea that at brief moments in time produced spectacular synergies that reflect the coming together of such astonishing people that their minds flourish and blossom from the experience of connecting with one another producing enlightenment. Throughout history, there have been few shining moments. When you look at the magnanimous period of great philosophy in Athens, the striking reality is the brevity of its existence – just a couple of generations coming together and overlapping. There was the period of the Enlightenment sparked by actual discoveries in Russia that shook the foundations of how the world functioned. This period produced so much, yet lasted for one brief shining slice of time. Often we emerge as a society with noble ideas, and end in the darkness of corruption.

The Marxism that infected society from the very late 19th century encouraged the usurpation of rights, liberty, and progress in the evolution of our economy as government adopted a centralized plan to temper and control mankind. The hated bourgeoisie of Marx (middle class small businessmen), were simply replaced by government. Instead of the “rich” being parasites who exploited the labor of mankind, government replaced them taking all sorts of taxes from payroll to annual property taxes, but always with good intentions.

The collapse of socialism in the West will follow a similar course as the collapse of communism in Russia and China. The political system will be forced to adapt. Much of the old politicians have overstayed their welcome and the ravages of time. By 2016, most will be swept away and a new monetary system as we know it will be forced upon us. The national debt will crumble and it will be a time of hardship for those who counted on fixed income sucking the blood out of governments on all levels.

The promises of socialism the politicians have made for so long but lack the funds to have ever made it a reality, will crumble and fall to dust. When they can no longer sell more debt upon debt, the music will stop. The jig will be up and the walls will come crashing down. Society will need to be rebooted and hopefully we will enter a new age of enlightenment that will enable great minds to come together to carve out a future that is hopefully one that draws from the lessons of the past making a step forward in the evolutionary process of mankind (if you indulge my dreams).

As to WHERE TO INVEST, most tangible items will rise in value when the currency comes under attack. That will include stocks. Stay far away from public sector bonds for even those that survive will be discounted.

I was probably the first analyst from the West invited to China by the Central Bank back in 1997. I was stunned by the fact that those I met with had LIVE trading experience unlike those with just academic degrees in the West. You can write a book about sex, but unless you have experienced it, how can you be an expert? China is head-and-shoulders above the West. They act like traders, not like fools. They first reduced the maturity on their US debt. Now they are shifting from government debt to private investment. This is precisely in line with the **Economic Confidence Model**, which they instinctively understand. Yes, I have a huge readership in Asia, but that is because they understand cycles and move with the economic cycle trend unlike Western governments who still do not understand economics.

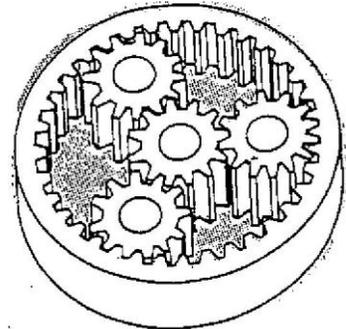
<http://blogs.telegraph.co.uk/finance/ambroseevans-pritchard/100011987/china-to-liquidate-us-treasuries-not-dollars/>

In *Its Just Time*, I mentioned a book I found to be very good on the thinking process differences in general between Asia and American-European culture. Just as money emerged in the West as a tangible item, in Asia it emerged differently as a fiat currency because the Emperor was seen as the son of God. This religious difference allowed money to be dictated in China whereas in the West we are still clinging to this idea that money is tangible.

Richard E. Nesbett wrote a good book entitled *"The Geography of Thought, How Asians and Westerners Think Differently ... and why."* He attributed his work to a Chinese student who said: *"You know, the difference between you and me is that I think the world is a Circle, and you think it's a line."* He goes on to quote him:

"The Chinese believe in constant change, but with things always moving back to some prior state. They pay attention to wide range of events; they search for relationships between things; and they think you can't understand the part without understanding the whole. Westerners live in a simpler, more deterministic world; they focus on salient objects or people instead of the larger picture; and they think they can control events because they know the rules that govern the behavior of objects."

Nisbett was correct. I have lectured in Asia since the mid-1980s. I noticed that I did not have to explain cycles to Asians; they instinctively understood what I was talking about. Western thinking is generally linear, and has greater problems trying to comprehend multiple relationships taking place on a dynamic level. The way I picture the world in my mind is akin to gears in a machine, where everything is connected. If I turn one gear, all others change instantly. Cyclical activity is similar. Some find it far too complex. But keep in mind that we are all connected. Just as there was a flight to the dollar because of events in Europe during the Great Depression, events in other nations cause affects around the world. It is this dynamic structure that makes it appear to the casual observer as pure chaos that has been called *"random-walk"* or some other label to discourage dynamic thinking.



Western economists for the most part reject the *Business Cycle* and are still closet Marxists for they believe government has a role to manipulate the people into doing whatever they desire. I fail to understand how cycles are accepted in **EVERY** other field right down to physics, but in economics, they deny even the forces of nature. A major Australian public mining company directed its financial director CFO to meet with me because he lost a fortune hedging the A\$. At first, he was very hostile and argued everything could simply be coincidence. I sensed something in his voice that was not pure academic economist so I asked him his background. Most CFOs come with engineering degrees, not economics. He hesitated, and then replied nuclear physicist. I said great! Let's now look at the markets from the laws of Thermodynamics. He looked at me stunned. He paused for a brief moment and then replied: *"My God. There has to be a cycle!"* China understands cycles. It is part of their culture. That is why I was perhaps the first to be invited. When I got there, they had stacks of everything I ever wrote and studied it all. We will get to all the specifics of investment soon. It is time.