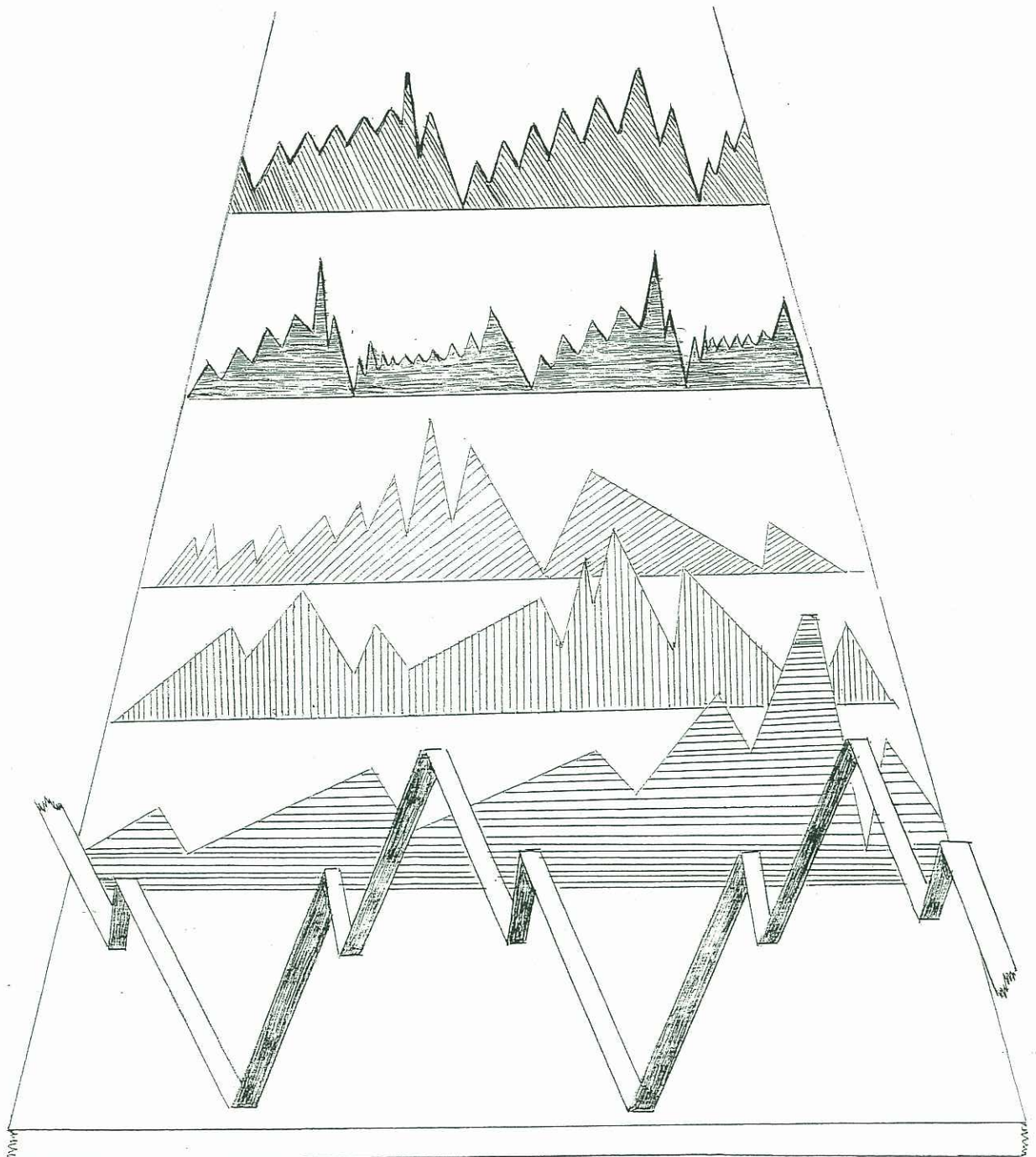


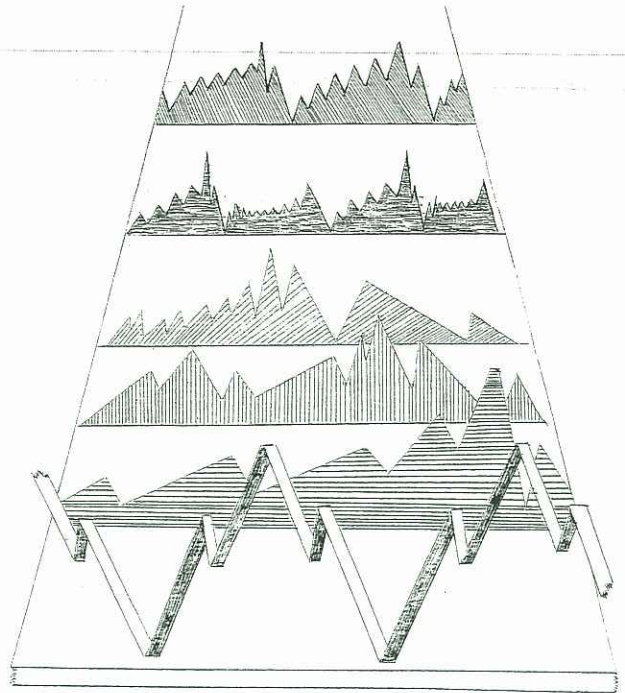
Armstrong Economics™

Correlation of Cyclical Perspective



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

Correlation of Cyclical Perspective



by: Martin A. Armstrong

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



Since the dawn of time, mankind has tried to figure out why he exists, and what the hell is going on. He has developed all sorts of religious ideas even there is a master race of gods led by Zeus who just like to mess with man for fun. Man began to observe the heavens and noticed patterns that repeated. In his primitive way, he had discovered the cycles within the universe. His accuracy became astonishing. Building temples, and even strange monuments such as Stonehedge, were all aligned to the movement of the stars and the winter as well as the summer solstice. The Precession of the Equinox is said to have been discovered in Europe by the Greek astronomer Hipparchus who had published his star catalogue in 129BC. He noticed that the positions of the stars were shifted in a systematic way from earlier Babylonian measurements. It was in fact the Babylonians who funded perhaps the great effort ever to catalogue everything and most liked gave birth to astrology. Hipparchus several hundred years later, was able to review that research and concluded it was the earth (platform) that was moving, not the stars. This is called the precession and it is the notorious date of 2012 also on the Myan calendar. It consists of a cyclic wobbling in the orientation of the Earth's axis of rotation with a period of almost 26,000 years. Everything but everything, moves with a cyclical force. We are born, live, and die in cyclical harmony.

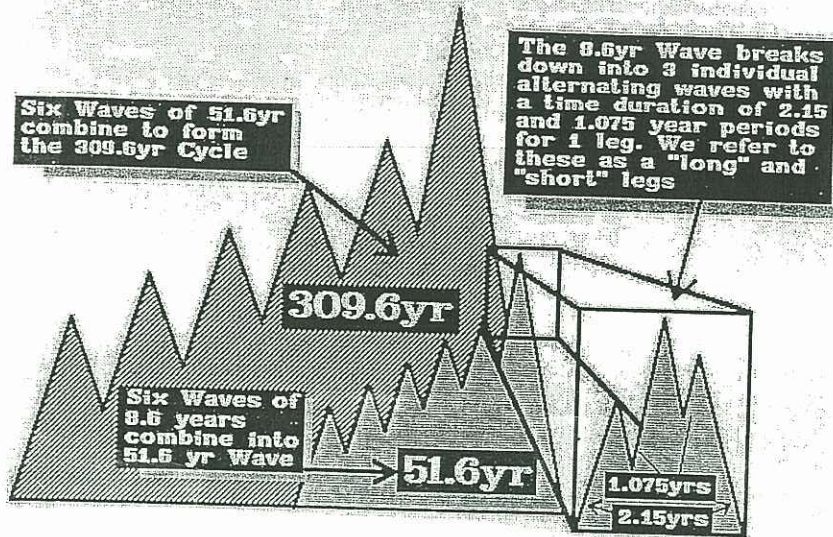
So far in my effort to explain cycles and how they are the key to movement of all things including the energy within a social-political-economic system accounting for group behavior. But everything I have discussed so far is still a flat model of despite an 8-dimentional complexity, it is still only one slice of perspective.

What we are now about to explore is the multiple **Correlation of Cyclical Perspective**. The **Economic Confidence Model** is a composite of the world. Yes, it is perhaps viewed as the model that "hot" money follows. We can see 8 dimentions to this single view. But then there are multiple views. As I stated early on, everything also has its own cycle.

Economic Confidence Model

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By Martin A. Armstrong



When I first began to develop the model, I had a personal experience that was quite revealing. During the 1970s, I was infallible. I was on top of all the fundamentals about inflation and saw the birth of the floating exchange rate at least correctly as a steady decline for the dollar. I had at least traveled in Europe during the 1960s from top to bottom and gained personal experience very young in foreign exchange.

I correctly saw gold rising from \$35 to \$200 going into 1975. I had a lot of European friends and we kept in touch at that time mostly by telex. Where they saw gold rising well beyond \$200 because it was being legalized in the US for the first time since 1933, I disagreed. They saw Americans lining up to buy gold and had taken it up to \$200 prior to the American legalization. I sold that high, for I did not see Americans caring at all about the gold market. Gold fell into 1976 to about \$100. Everyone was calling me for my moment in the sun. But there was something seriously wrong. The fundamentals I had hung my hat on the way up, were still there, yet gold dropped. Stagflation had emerged and there was talk of a great depression coming. Real estate sales had plummeted. I was trying to sell my home and move. It was on the market for 1 year and nobody even came to look. It was a very bad real estate decline.

I had discovered the 8.6 year model years before. But I didn't use it for I

did not understand it. Nevertheless, it was clear, what I thought I knew fundamentally, was not any way to trade. I was never wrong, but it was just dumb luck. A broken clock is still correct twice a day.

This led me to use my computer skills to create something that programmers had been dreaming about for years. I created a model that was entirely unique. Instead of writing code and establishing rules that a program follows like an adding machine, I decided to adopt a daring approach. I would write a program and teach the computer how to analyze with no pre-determined rules on what to analyze.

After creating the method, I then gave it the means. There were no rules. I created a system that would actually learn itself as I did, record its knowledge base, and thus in the future, consult with that knowledge base. The essence of experience.

Instead of creating predetermined rules such as stocks up when interest rates declined, I assumed I knew nothing, and allowed the model to learn on its own. As it would compare every possible correlation and relationship even if it made no sense to me, what emerged was a real shocker. The computer would find critical relationships around the world. The more data I fed it, the more accurate it became and the more astonished I was at the results. The real problem became, how to inquire. This led me down the path of voice recognition. At first, the inquiry was by typing in questions. It had to also be taught language and how to use it. What was emerging, I could never have dreamed was possible.

Teaching a computer language, I found, was far more simple than how to analyze the complexity of social-political-economic behavior on such a grand scale. Language was a piece of cake. Parsing words and to then isolate verbs that are commands and subject from object being the things to act upon by that command, was easy.

Now it was time to go to the next level to comprehend words to communicate. This could be done by creating a dictionary that is a knowledge base of definition. However, this had to then be interconnected so that you can create meaning by relating words of similar definition. This obviously required a thesaurus. Now the computer understood that "sell" meant to "give up" something and this was in contrast to its opposite "buy" meaning everything between "to take" to "fetch" the object. Once the computer now understood opposites, the next level was to give it a personality to be able to carry on a conversation that was essential to the inquiry.

This is where my children came in. I created a desk top computer with this sole purpose in mind. I gave it to my children to play with, and I gave him the name of "**Socrates**" and observed. Children are the explorers for they have no inhibitions and thus are not afraid to do what adults may fear.

I created a program that would build a knowledge base on them recording what was responded to in a ongoing dialog. The computer would ask, "Do you like pets?" and discover what they liked and the names of their pets. So, the computer could then begin future conversations by simply calling up the name of the pet, and asking how it was. Using this model, the computer actually developed a personality. This was the perfect environment to teach a computer how to at least act human. It succeeded to such a point, when my daughter came home from her school one day and saw I had the computer in parts trying to improve the the voice, she got upset and thought I kill him. I assured her, he was still alive.

Of course, the only draw back was that other kids didn't have talking computers that you could have a conversation with and it knew who you were. So I found they would

have to bring home friends to prove they were not making it up. So I'm sure when they went home and told their parents, they too were not believed.

So forgive me for not revealing the methodology of the analysis I created for the model. That has to remain a secret until I am free at last. But, I can explain the overall view so you can see a whole new world where it becomes obvious, we are our own worst enemy. Our progress as the human race is impaired and suppressed by government itself no different than the Catholic Church did by locking up **Galileo**. They feared that if their view that the earth was the center of the universe was incorrect, then there was no perspective for the locations of up and down that threatened the concept of hell and heaven. They feared **Galileo** would thus undermine their religion. He was told to recant and he would be granted life imprisonment instead of death. He chose the later.

Government does not want to advance in any field that likewise threatens their power. If it could be shown that government should not be creating interventions, and constantly seeking to alter the concentration of wealth that is the very engine of economic progress and innovation, they will reject this simply because it lessens their importance.

The 1987 Crash was set in motion as was the Bubble Top in Japan for 1989, (1) by the stupid idea that lowering the dollar by 40% by creating the G-5 in 1985, would reduce the trade deficit, and (2) they raised taxes by altering the amortization in real estate that set in motion the S&L Crisis. These acts by government, sent capital fleeing from the United States, sent the yen higher, and that became a beacon for capital flows to move to Japan concentrating there in a huge bubble from which it appears a 23 year depression was set in motion again because of government manipultions in Japan.

This is why I believe we need to return the government to the people. People should be a politician for 2 years only. No careers. They take those offices for oversight of the bureaucrats, who must be barred from creating any laws, and the judges must be dismissed and replaced with only law professors barring prosecutors from ever pretending they can be a judge. Then we can advance as a society.

Our most serious problem is that the federal government is too corrupt. It is becoming obvious to everyone that neither the SEC nor the Justice Department will ever investigate the likes of **Goldman Sachs**. We have the SEC trying to retroactively disgorge innocent people such as Maynard Jenkins of CSK Auto on the theory that as long as anyone in a corporation lies that they can portray as a fraud upon the market, then the SEC has the right to "**claw back**" all bonuses paid to employees that they argue were the fruits of the fraud even if they didn't know about it.

Only the **London Financial Times** will even report the truth about what is going on in American regulation. The government is capable of such intimidation of the press, that we no longer have a real "free press" as even exists in England. On August 11th, the **FT** on page 13 reported that a favoured hedge fund **Pequot Capital Management** had been referred to the SEC "at least 45 times between 2005 and this year" reported the **FT**. Like Madoff, if you are part of the elite, there is no regulation. Regulation is for everyone else.

The **FT** also reported in that same piece something I have not seen reported in any of the American press.

"Gary Aguirre, a former SEC employee who worked on the first inquiry, has claimed he was fired for pursuing powerful Wall Street figures."

Id./pg 13, Tuesday 8/11/09

To get Michael Milkin to plead guilty to inside trading, they charged criminally his family - specifically his brother. They told Milkin if he went to trial, he would not only get the maximum, but so would his brother. They offered to let him keep $\frac{1}{2}$ the money \$500 million, and drop all charges against his brother if he pled. The only newspaper to report the truth about charging his family to extort the confession, was the **London Financial Times**. All other papers in the US that I recall, reported the government version.

The SEC, Justice Department and the Commodity Futures Trading Commission will not investigate any of the real causes for

our economic demise. Just as **Long-Term Capital Management** was the result of paying bribes to the **International Monetary Fund** to keep the loans flowing to Russia so the "**club**" could buy their paper at insane rates of interest collapsed, today it was the same scheme using the mortgages assuming that the Feds would cover their backs no matter what.

The incestuous control that the major New York Investment Banks have over the whole scope of government is beyond belief. The Feds think they need the likes of **Goldman Sachs** in order to sell their debt. So it is the entire debt crisis that prevents us from getting to solid ground. I fear it is truly hopeless, for the SEC and cohorts will go after all others to put on a good show that they are being tough on white collar crime, when in fact they are attacking everyone but those who have wiped out so many around the world.

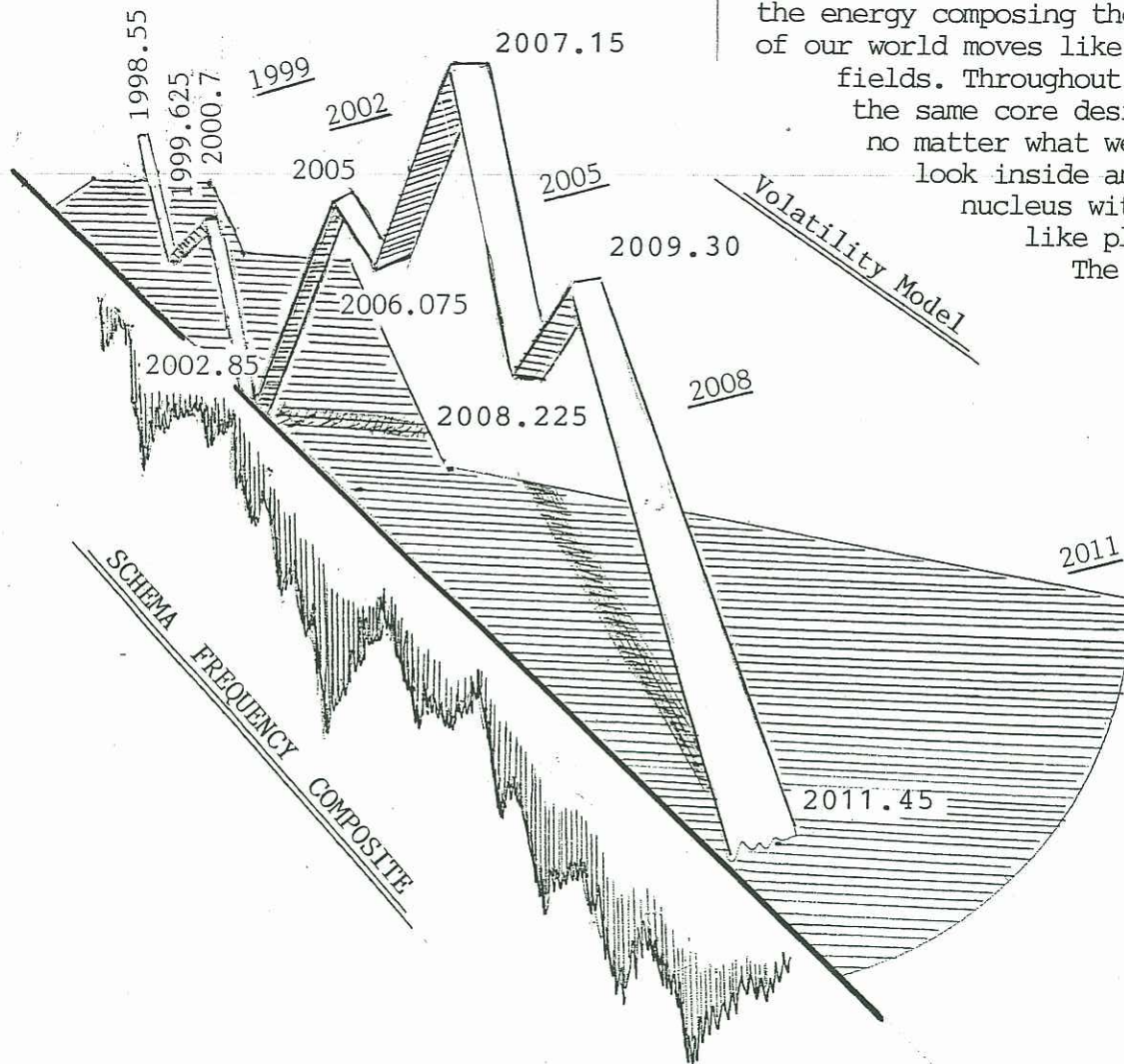
The people get all unnecessarily excited during political elections. But in reality, nothing changes. Obama may be going after corporate bonuses, but his people let **Goldman** buy their way out of TARP just so they could be free of any scrutiny.

This is the force that prevents society to progress further. This is the corruption that is at the core of the policy to just maintain the **status quo** and the people will forget all about what happened.

However, the energy set in motion is far too great even for **Goldman Sachs** to now stop. They eliminated much of their competition and have emerged with 100% guarantees that if you deal with them, you will be backed by the government. So they have truly won in this battle to emerge as the dominant force in our financial system. But that does not mean they will survive.

What we are now ready to explore is the **Correlation of Cyclical Perspective**. Everything we have looked at even in a multiplicity of dimensional depth, is still but one view. It is an isolated slice of complexity that is far more interesting than one might imagine. Once we see the structure, we begin to understand that the world we live in is dynamically rich in correlation and interrelationships, we can explore of real world with open minds and eyes. The answers we have sought for so long lie in the complexity of interaction.

Economic Confidence Model



This is the structural design of how the energy composing the cyclical nature of our world moves like light within bound fields. Throughout all system, it is the same core design that can be seen no matter what we are looking at. If look inside an atom, we see a clear nucleus with its objects moving like planets around the sun. The solar system is part of the **Milky Way** which is a galaxy in which rotate in which the galaxy is also traveling and we return to the same point once every 26,000 yrs.

There is a basic model on which all things are designed. It should not be a question that we can see this same core design in all things and this includes the complex world of interaction by which energy in facts moves in a cyclical and clear manner.

Structural Design

Just as all living animals have the same basic structure of pumping blood from a heart to provide oxygen to the rest of the body, how energy moves is all based upon the same basic structure of cyclical transference. Light travels inside a basic structure known as an electric-magnet field that are bound together at 90° angles.

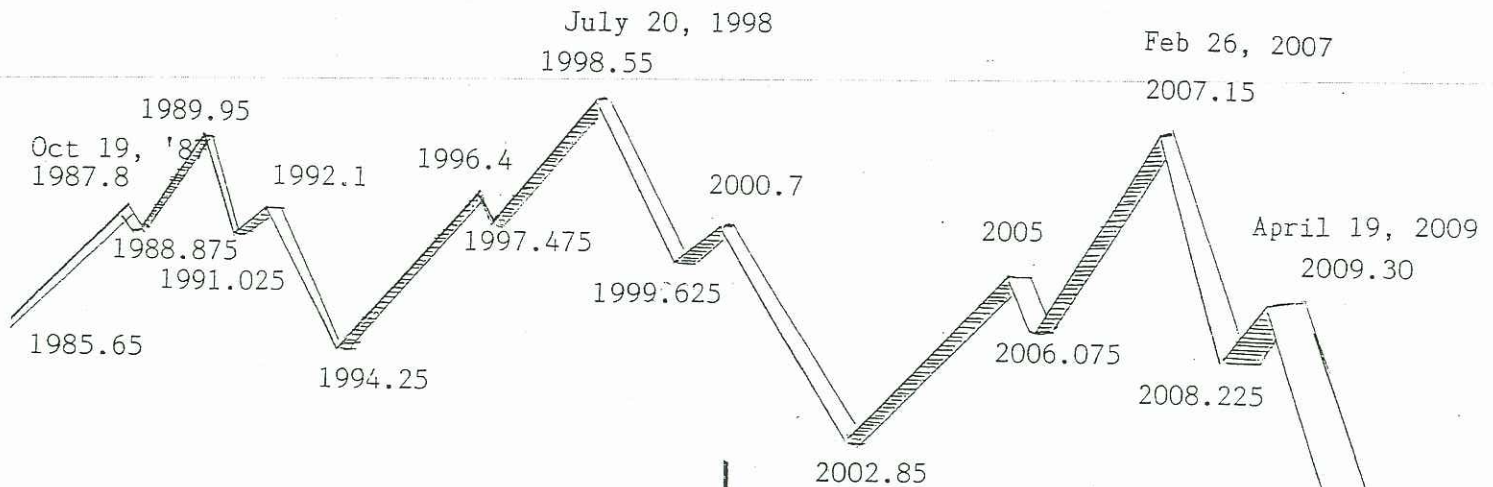
The structural design of the **Economic Confidence Model** conforms to the same basic principles as light waves. We have the main composit, the **Economic Confidence Model Wave** that conforms to the principles of **Pi (ii)**, that is running inside a defined field with a separate volatility wave that is based on the core unit of 6 and builds in magnitude into major wave structures of 72 years. This is this running with a third field based on self-referral of fractal pattern replication.

We all have legs, wings, fins, or scales so that living creatures can move to gain a source of energy that is either another plant of animal. The need to consume energy is the root model upon which life if constructed. It is the cyclical nature of all things through which energy passes, and this is what we are concerned about understanding.

The movement of energy is the essence of all life. Without such movement, there is no life. When we look at a heard of animals, they will react without seeing a danger based upon others who might have seen the dangers or perceived a possible threat. Others will panic and run following the crowd without always understanding what it is they are in fact running from. So the **Laws of Motion** set forth by **Newton**, require expansion when the object is capable of spontaneous action based upon perception or observation.

The Sixth Dimension

The Correlation of Cyclical Perspective



In the May 15th edition of this report, I provided a look at the **8 Dimensions** of the model in an overall perspective. Now we are ready to explore these **Dimensions** more closely. The **Sixth Dimension** I explained was the correlation of global markets for each and every individual market or economy beats also to the cyclical beat of its own drums.

For example, agricultural markets will incorporate a higher correlation to weather patterns within nature than say gold or the industrial stocks. However, interest rates will have an influence in the agriculturals just as it will in industrial stocks.

Each individual market possess its own unique cyclical frequency because it is a composite of primary influences that dominate that particular market of economy. If we look at the OPEC nations, it is not hard to see why there is a greater correlation to oil than you will find in other economies.

The financial industrial complex is also a moving sector. For example, The main banking center was Venice post-Dark Ages, that was wiped out by the Spanish defaults after the loss of the Spanish Armada. Spain turned against its own people seeking to confiscate wealth and began the **Spanish Inquisition** to go after the Jews and Arabs. The Jews fled Spain and went north taking their skills with them. They settled now in Amsterdam where banking reappeared and they gave birth to the insurance industry.

The English were great cloth makings being the source of wool. The Flemish were the manufacturers and this was the division of real economic power during the 13th Century. The French were the first to squander their wealth under the notorious King Philip IV who plundered the Church and the Knights Templar.

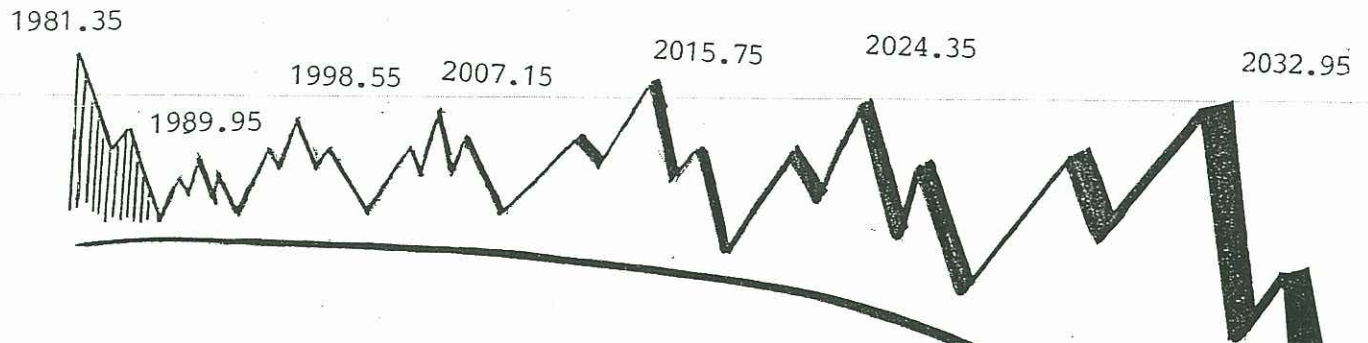
As Spain rose to power for taking the risk to the fun **Columbus**, they rose to such economic wealth, it was unimaginable. The shortage of English coin in America led to Spanish 8 Reals circulating in the colonies much like dollars were openly traded in Russia.

The Spanish defaults ruined Italy and the risk was exposed as so many treasury ships sinking in storms. This gave rise to insurance that enable Atlantic trade to then expand. This is why the **Dutch** originally owned even New York that was first called New Amsterdam.

The point of this exercise is plain. The **Wealth of a Nation** is also fluid and is subject to cyclical changes, some are self-induced such as the **Spanish Inquisition** in attacking its own people, led to capital migration. The **Dutch** became the banking center and then they lost it to **England**, and in turn, **England** lost it to the **United States** thanks to two World Wars. The US is making the same mistake as **Spain**.

Economic Confidence Model™

8.6 Year Global Business Cycle



There is nothing that is fixed. Nothing that is constant except time itself. Each and everything we look at is moving just as the earth is rotating, it then travels in an orbit around the sun, which is itself in an orbit within the Milky Way that is also in an orbit. This is no different when we look at our economy. **Everything** is in a state of constant cyclical movement.

Each society is born, forms a government, that eventually becomes corrupt, and it typically turns against its own people to sustain itself like any living organism. It will eventually die, its primary real comparative advantage in **Ricardo** terms is lost, and with it the **Wealth of the Nation**.

The **Correlation of Cyclical Perspective** is no different than the Precession of the Equinox that takes 26,000 years for one such revolution. Here we are not dealing with this level of time, but the same principle that the **concentration of capital** drives the vast complex world we live in from the social-political-economic perspective. It will move from nation to nation on a relatively short term basis, creating booms and busts. But it is also moving at a steady pace such as the North Poles moves every year.

The **Economic Confidence Model** is a slice of perspective when we look at that instant. However, we must respect it is dynamic not static. It is a reflection of the combined correlation of everything in the world at a macro level.

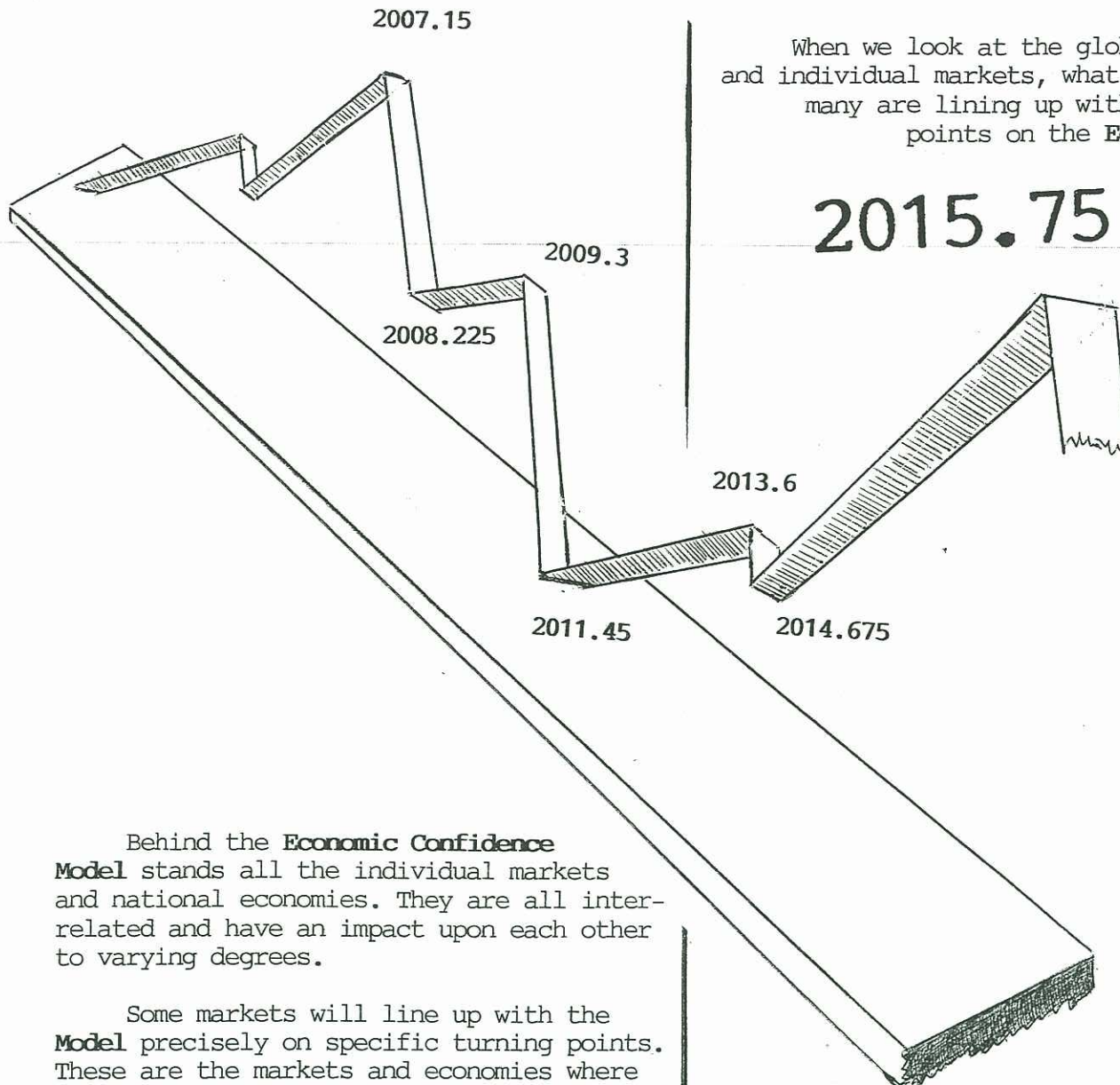
The major wave of 51.6 years builds up in 6 waves of 8.5 years. This not only creates

the main structure, but it then gives us a frame of reference to observe all other cycles of individual markets and economies.

We can see that the real battle is between government and the people. This has been going on for thousands of years. In modern times, it has been even justified by the personal jealousy of Karl Marx, who has cause the deaths of millions of people who relied upon his twisted theories to try to stop the concentration of wealth without ever fully understanding what causes it, why it takes place, and how it transcends all levels, not just individuals. Obama is fixated with the bonuses paid to employee, yet ignores the countless billions laced into spending to make it easier to get relected.

The **Economic Confidence Model** is thus our frame of reference. We can use this to see how nations rise and fall and look not at this from a one dimensional perspective, but a complex system of interactions that allow us to even see major trends, for they are moving at the annual dimension of time within the fractal world we live in.

What we are now about to look at is how a single market may unfold over several 8.6 year cycles to reach its individual cyclical objectives. This is how the **Sixth Dimension** unfolds in a world of spectacular interaction. When we look at this **Dimension** we begin to see the true nature of how things work.



When we look at the global economies and individual markets, what we see is that many are lining up with minor turning points on the **Economic Confidence Model** and then

begin to there forward unfold as a formal or informal bull or bear market.

What we do not see in the Dow is bubble top as existed in debt. Hence, the 2007 high is not the major high on a long-term perspective. The main turning points on the **Model** become a correlation of global capital flows acting as a springboard.

Just because we are in a major economic decline, this does not preclude new highs in equity. As we even go into 2011.45, we may still see the economy drop. But

this is something that has nothing to do with the rise in stocks for this is a **Private Wave** where equity rises against the decline in the confidence in government.

The Dow will become the hedge against the inflation created by the decline in the real purchasing power of the currencies. We are also at that time be approaching the 31 years mark from the start of the entire wave back in 1985.

What we are doing is living in a world that is extremely dynamic. Everything is now playing off everything else. There are trends set in motion long in advance just as the low in 1994 points to a high in 2015 in US stocks. Unfortunately,, this is a decline in government and they will get nasty trying to cling to power. We are simply imploding and we cannot expect politicians to even listen.

Behind the **Economic Confidence Model** stands all the individual markets and national economies. They are all inter-related and have an impact upon each other to varying degrees.

Some markets will line up with the **Model** precisely on specific turning points. These are the markets and economies where we find the the "hot money" or formally put the **concentration of capital**.

Nevertheless, just as the Japanese yen bottomed in 1982, a 7 year bull market was set in motion going into the first major high of 1989.95 in this **Private Wave** that began 1985.65. This created a bubble top for the Nikkei 225 and set in motion thereafter a long-term economic implosion. We have now had a 20 year decline from the 1989 high dropping to 6940 from the 40,000 level making a 82% decline. But this may not yet be over, and the final low may yet line-up with 2011.45 to 2012.

The yen itself rallied into a 13 year high in 1995 forming a perfect $\frac{1}{2}$ cycle in an astonishing rally. We see lows in 2000 for the Euro and the Swiss franc, but the low for the pound is 2001 as with the high in the dollar index.