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Forecasting the World

# How & When

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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 an 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 flus.

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,

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# How & When

By: Martin A. Armstrong

March 1st, 2011

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

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**T**RYING to comprehend the global economy seems sometimes difficult for many perhaps because they are so hard wired into looking at the world through only their own perspective, it appears that it is often hopeless to advance to the next level of knowledge. In all reality, there are two SEPARATE forces within all markets and economies that must be approached individually - **HOW & WHEN!** This means that **TIME** never changes, but the patterns as to **HOW** the event will unfold is a different analysis altogether. The first can be scientific, where the latter can at times become an art form and governed by **SUBJECTIVE** analysis that embraces experience. Therefore, understanding the difference between **HOW & WHEN** analysis is very critical for to see the future, requires the comprehension of both. Then there is the international understanding of capital flows that broaden the horizon altogether. In the early 80s, we opened an office in Geneva. That was the place to be back then. OPEC was the center of the world. After 1985, the action began to shift to Japan. By 1987, the very TOP brokers of all the firms who I had met in Geneva, migrated and were now working in Tokyo. After Japan exploded from its Bubble Top in December 1989, they moved to Singapore. What I was witnessing was the natural flow of capital on a global level. Money migrates like a herd of wild animals. This is the essence of the **Economic Confidence Model**. I have stated many times, this is **NOT** the model based upon any individual market. It is the model that tracks the ebbs and flows of capital on a global scale. The interesting aspect of this model is that each and every market has its **OWN** model. It may be attracted to the turning points in a general sense, but **ONLY** when it lines up with the model does this suggest that that **PARTICULAR** market is going to be the target of capital flows.

People who either do not understand the global economy or are desperate to try to discredit cycles in general, always point to the **ECM** and then try to map it against a particular market to claim it does not work. It was **NOT** derived from a market and it is tracking **ONLY** the **HOT** money **GLOBALLY!**

Each and every market has its own pure timing frequencies. Some are shorter while others are extremely long. This is the case when looking at agricultural markets that swing in price dramatically for they are more closely correlated to weather than say the real estate cycle. The **ECM** in no way alters the individual frequencies of any market, and that includes gold.

The real importance of the **ECM** is its ability to pinpoint the **HOT MONEY**. Any market will become hot and then it will be highly popular and that attracts capital concentrating in that sector causing a surge in prices. This is standard in all countries be it the bubble in Tokyo for 1989.95, the railroad stocks of the 19th century, the **DOT.COM** for 2000, or the auto stocks for the Great Depression. Capital acts like a herd of wild animals. It runs together in trends, and it will suddenly panic and change direction in a stampede. **THE IMPORTANT ASPECT OF THE ECM IS TO SEE WHAT CORRELATES WITH IT, FOR THEN CAPITAL WILL REVEAL THE NEXT HOT MARKET, SECTOR, COUNTRY, OR REGION!** It is **NOT** mapping a single market to the **ECM**.

As we move into the next major target such as 2011.45, (June 13th/14th, 2011), what will be most important is the fact that this becomes a **STRANGE ATTRACTOR** that markets will revolve around. Not all markets will do something on that day. But those that do, tend to become the new favor for the next cycle.

Take gold for example. **THE BEST OF ALL WORLDS FOR A BULL MARKET** shall be for gold to make a low on that day. This will be the best possible signal that the next 4.3 yrs will be very interesting indeed.

As I have said previously, there does not appear to be a likelihood of any real BEAR MARKET with a profound crash. The key support lies in the \$1,000-1,100 zone. Because the important support is so high, it is not likely that there would be a big V type bottom.

A **CORRECTION** can be like a decline, crash, or a side-ways trend that fails to breakout to the upside or decline sharply. From a very broad perspective, the Dow Jones Industrials first hit 1,000 in 1966. It tested that level 3 times. Finally, in 1985, the Dow began to take off and then rally decisively through it into 1987. If you step back and look at the yearly chart, you see a broad sideways consolidation. This is what we call **BUILDING A BASE**. It was a base defined by the top at 1000.

Looking at gold on the monthly level, it just exceeded \$1,000 in March 2008. It then corrected (declined) falling back to about \$680 over the next 7 months. From the highest monthly close in Feb 2008, it was a 8 month decline.

Gold then rallied back to \$1,000 in just 4 months. The decline thereafter lasted 6 months where the low was made in just 2 months and the next 4 months was sideways with neither a new high nor a new low. It remained within that range. The market finally made a new high in the 7th month (Sept 2009) and it then rallied sharply into December 2009 exceeding \$1200 intraday. Thus, a decline **NEED NOT BE** a steady decline with each month lower. A sideways pattern that does not really make sustained new highs, qualifies as a correction.

The second type of pattern is the real breakout. Gold could be in a **PHASE TRANSITION** type period. That raises two possible types of patterns. (1) the March high with the June low, or (2) the June high with the Oct/Nov low.

There is a risk that the Middle East may get everyone really excited and we just blast out to the upside. I warned that there was a possibility of seeing \$1700 level by March and a fall back to \$1400-1509 for the June low testing the TOP of the **Primary Channel**. The extreme projection for a March high is \$1775 but a June high would be \$2010.

The two patterns are either we stay in the **PRIMARY CHANNEL** for right now and test the support at the 1150 or 1250 level at worst, or we blast out the top of this main channel, fall back to find it providing support, and then we will be on our way to at least \$5,000 and may be \$12,000 by 2015/16.

The Middle East is not the big issue. We are facing a global famine and food crisis that is behind the political unrest. This is coming at a time when governments are broke. We have state and local governments in a debt crisis and that meltdown is **VERY REAL!!!!!!!** Government is collapsing. That is the issue!

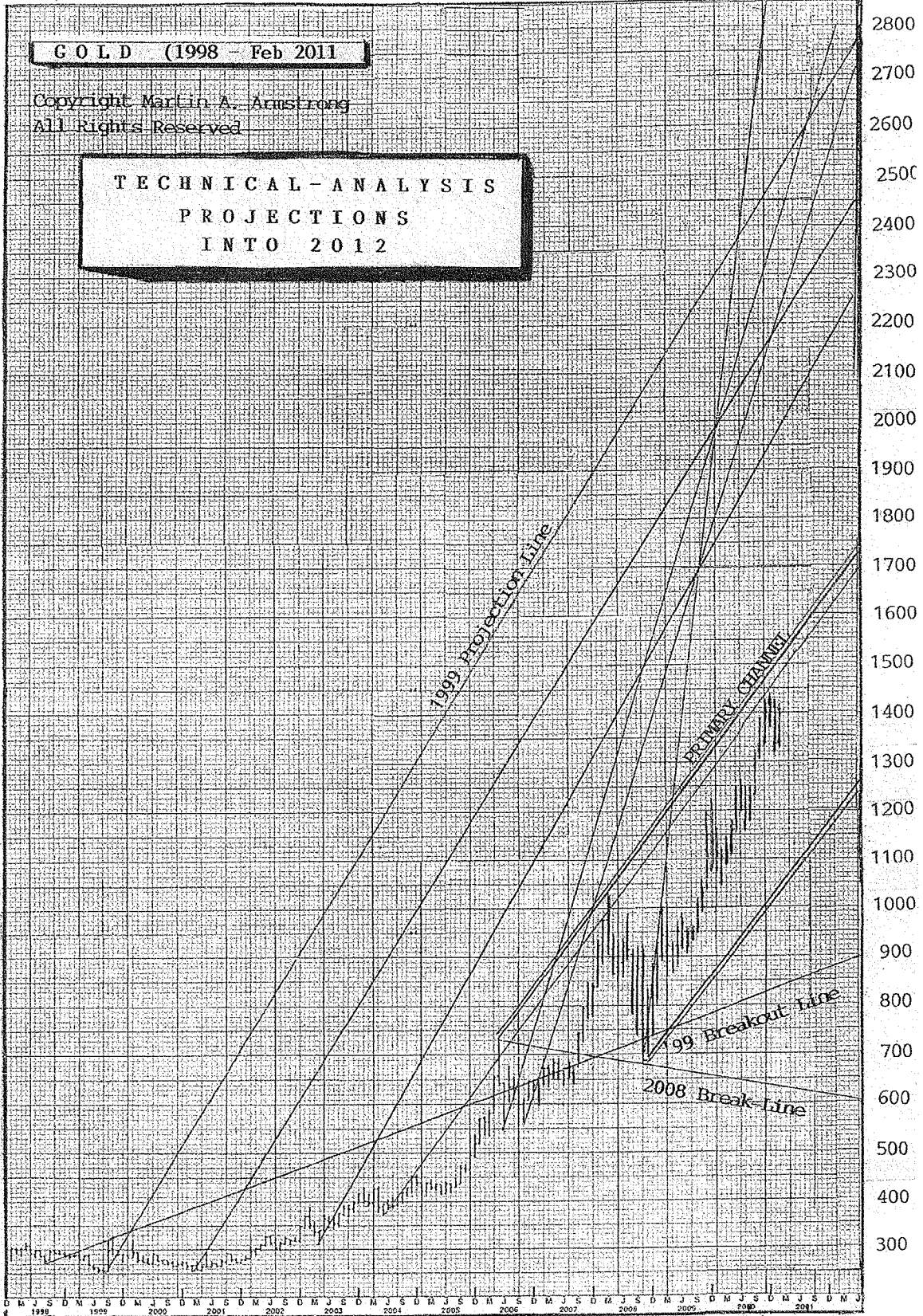
Gold actually peaked on January 21st, 1980, not 1981.35. The interest rates had peaked with the 1981 turning point, while gold peaked on its own model 64 years that was the turning point before the major high on the **ECM**. Gold crashed for 2.15 years into 1982, rallied into February 1983, and then declined into 1985 when G5 was formed. At no time did it perfectly line up with the **ECM**. Gold bottomed on August 25th, 1999, and that was after the high on July 20th, 1998 and the collapse in Russia & LTCM - 1998.55.

Gold has managed to start what we called a **CYCLE INVERSION**. Where it was rising when the **ECM** rose in the 1970-1980s and decline with it in general, by the '90s, its relationship was inverting. We got a low with the general high in 1998, and began to decline with the rallies. This realignment started with 2002 where from that low gold rallied into 2007.15. It traded sideways until August '07, then rallied sharply on a flight to capital into 21.5 months from the 2006 high in gold.

GOLD (1998 - Feb 2011)

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TECHNICAL - ANALYSIS  
PROJECTIONS  
INTO 2012



Gold crashed and burned for 7 months after the 2008 high bottoming in October '08. Gold rallied into February '09 as everything was crashing. But it had not yet made new highs. It then fell back into April as the stock market bottomed in March. By September '09, the Dow Jones Industrials were back to 10,000. Gold was trading sideways, and then in September it began to rally peaking in December 2009.

The Dow began to build a base moving sideways and then gold rallied into December '10 reaching the 1431.10 level on December 7th. What is taking place is that gold is going through a **CYCLE INVERSION** and this is a good thing for it is starting to realign with the major purpose of gold - not the hedge that is claimed about inflation, but the hedge against the unsound finance of government. There is a **DIFFERENCE**. Steady inflation that takes place when confidence in government is still respectable, does not truly translate in a steady proportionate rise in gold. Just plot the national debt since 1980 along side gold and you will be hard pressed to explain how the debt can rise 1400% from 1 trillion to \$14 trillion and why gold is not \$12,250 matching the progressive rise in the debt. Everything is a matter of perception.

This is what the **ECM** is all about. If capital is widely distributed, then there is no "hot" investment, for to achieve that status, one must have capital attracted to a singular sector of investment. Once that capital becomes concentrated, the bubble breaks, the crash appears, and capital is off and running to the next great investment idea.

Declines in a market can be sideways movements in general. From a cyclical view, the sideways move instead of a rally is the same as a decline. **WHAT WILL NOT GO DOWN GOES UP!**

The key to gold is its flipping or the **CYCLE INVERSION** so it begins to rise with the **ECM** rather than with its decline. This is indicating that there may yet prove to be that day where gold becomes the object of EVERYONE'S affection. It is this period of what is a **PHASE TRANSITION** that is then required to produce the big rally.

The Gold Bugs want their cake and be able to eat it too. They are mad I have warned that gold would take a pause. I have received letters claiming once again that simply because I warned that we were approaching this high, that is what made it happen. That is just **NONSENSE**. There is no person be it an advisor or a trader, who can manipulate a bull market into a bear market. It just cannot be done.

The market is the only thing that is simply never wrong. For the bull market ahead in gold, a simple pause is **NECESSARY**. This is how bull markets are sustained. If we see gold rally blasting to new highs passing \$1500, we are in trouble. This would be a serious development warning that we are now completing a **PHASE TRANSITION** that could then lead to a low 2015.75 and the rally thereafter.

It is not even the geopolitical events that are really the meat and potatoes that drive gold. They are good for the short-lived rallies. What we are facing is a collapse of the global debt structure. That is very different from anything else. Even after the fall of Rome, all the silver and copper coinage effectively vanished. The only coin that was accepted was gold. Silver did not reappear until around 800AD. For about 309 years, gold became the **ONLY** form of money once Rome collapsed. This is not likely this time insofar as we face a **Dark Age** of 309 years ( $6 \times 51.6$ )( $6 \times 8.6$ ).

Nevertheless, what we are facing is a complete collapse in government debt for the interest expenditures to keep rolling the debt are growing displacing normal types of spending. The interest is consuming the total expenditure, and this is causing the total collapse in government debt.

**THIS IS** the big 800 pound gorilla in the room. Gaddafi is noise. Inflation is noise. It is the **DEBT DEFAULT** that is the reason why gold will become exponential. These big type of exponential moves last normally about 11 months where markets may explode 3 to 5 times the starting value before the **PHASE TRANSITION**. Thus, a pause at this time is **VERY** bullish long term. So do not cheer gold to rally to new highs just yet. Patience will be the key to the real big bucks.

So far we have an 11 year high as of December 2010. We got a sharp reaction right away into a January low that was so fast, it tends to warn more of a base type formation. This is highly likely given that the support is not really drastically lower. Even if gold tested the bottom of the channel, we are only looking at the very most, a retest of 1100.

The December high was 26 months from the October 2008 low. It is possible for a high in June 2011, but that would be on the PI cycle from that 2008 low - 31.4 months. The top of the **PRIMARY CHANNEL** would stand at 1600 area. It would take **TWO MONTHLY CLOSINGS CONSECUTIVELY ABOVE THE TOP OF THE CHANNEL TO HINT AT A BIG PHASE TRANSITION.**

So far, gold is in a sideways phase that can build a significant base from which an extended bull market remains a real potential. The **WORST IS YET TO COME** insofar as the sovereign debt crisis. Yes, this entire global economy could be fixed in 30 days or less. However, the governments of the world would never take such action and would rather see society crash and burn before they would ever listen and relinquish any power. So yes, there could be that extraordinary spike up that would be devastating forcing reform sooner than later. But I would not count on that just yet.

The monthly closing BELOW 1372 did warn that we are in a pause/consolidation type phase with no major change in trend just yet. Everything is STILL in a normal trading pattern as long as we remain in the **PRIMARY CHANNEL**.

ONLY a monthly closing BELOW 1150 would signal a bear market. This does NOT appear to be in the cards. To extend the life of the bull market, we really need a pause. It is like taking a sleep at night and you wake up all refreshed and ready to go. This is all we are talking about. A high in June is going to be problematic to say the least.

In the January 5th, 2011 report I warned that "[i]f January exceed[s] the December high and then closes lower, this would also indicate a possible temporary high." Id./p5. That did not happen. January reached only 1424 that left the high of 1436 intact. January did close lower at \$1333.80 on the spot. The weekly closing support lies at 1325-1331. This has held on a WEEKLY closing basis, yet the daily level reached 1309 intraday with a close down at 1318.40. So there was no sell signal just yet.

The major support for 2011 remains at 1045-1032. The technical support lies at 1100 going into June. **ONLY A YEARLY CLOSING BELOW \$600** would signal a bear market. That just does not appear likely. The Monthly Chart provided is still the showing we have **NOT** broken out yet into any abnormal type of rally. This suggests that while gold has moved to test the top of the **PRIMARY CHANNEL**, we have yet to really break-out into a **PHASE TRANSITION** style bull market.

Silver, on the other hand, made a spectacular rally for 11 months from the Feb '10 low 14.55 to reach 31.275 on Jan 3rd, 2011. This was the typical **PHASE TRANSITION** that requires a minimum of a doubling in price in 11 months on the minimum. January closed lower than December, but it would require a monthly closing back BELOW \$17 to signal a change in trend for now.

Looking ahead on a weekly timing basis, the key weeks appear to be 3/14, 4/4, 4/25-5/2, 5/23-5/30 and 6/13. **The most important aspect will be if gold can produce a low the week of June 13th.** This is no guarantee. The closer we get to it I will be able to fine tune the dates and price projections. The most important aspect is to get a LOW rather than a spike high for the former will be the start of an extension whereas the latter may prove to be an exhaustion.

**MONTHLY** timing targets are still March followed by June, followed by Oct/Nov. The **PRIMARY CHANNEL** stands at \$1531.19 for March. This is the **MAJOR** resistance at this point.

## THE SPIKE HIGH

The primary danger we face is a rally to MAJOR new highs above the top of the **PRIMARY CHANNEL**. This would signal a breakout and maybe a exponential **PHASE TRANSITION**. If gold blasts out to new highs, we are in danger of a premature exhaustive move. The extreme resistance for March stands at \$1,775.6. This is what would become possible if we see a break above \$1531.19.

It would be possible if gold blasted up to the \$1775 level in March, then we would see a retest of support into June. If that came during the week of June 13th, this would signal an amazing rally may then develop with a high at least at the \$5,000 level and perhaps even \$12,000 by 2015.75 if we held the \$1500 level in June.

I cannot stress enough that this is just NOT about the Middle East nor about inflation. There is a lot more to this type of forecast than either of these two fundamentals alone. Yes they can be the short-term reason to support a spike rally. But these are not SUSTAINABLE any more than the inflation scenario was going into 1980.

The real key in the SOVEREIGN DEBT CRISIS. This is not about inflation in the traditional sense. This is about the collapse of the monetary system on a true wholesale basis.

A former client Erwin sent in the FT article from June 1998 when we were then warning about the collapse in Russia. It was far more profound than the traditional thoughts at the time. This forecast is why the CIA came in and wanted us to build the model for them when it was proven to be able to forecast geopolitical events.

The failure to comprehend the total capital concentration in Russia going into 1998 was fatal. It was driven by inside trading by NY Banks & hedge funds using inside info from the IMF to play the debt in Russia at high rates supported by the IMF. This led to a CONTAGION worldwide that resulted in the FED bailout of Long Term Capital Management that was another back-door rescue of NY Bankers. Gold fell because of liquidation to raise cash that made the 1999 major low.

This was the real issue that finally led to the low forming in gold on August 25th, 1999. It was this fundamental shift in the debt structure of the world that was causing gold to reverse its 19 year decline on an intraday basis,

Inflation really had nothing to do with the reversal of fortune in gold. It was a shift in the economic conditions behind the global government structure. It was 1989 that marked the beginning of the end for Communism. The coup in Russia of August '91 marked the acceleration point and by 1998, the initial corruption had exploded taking down most of the sound ideas behind Russia. The IMF was a turned into a fool.

Therefore, just as the talk was all about the traditional nonsense fundamentals back in 1998, they missed the point of how unsound the investment structure was going into Russia. That failure to grasp the true nature of what was taking place back then, caused most to come to the shock of the collapse of LTCM that forced the Fed to bail them out to save the banks.

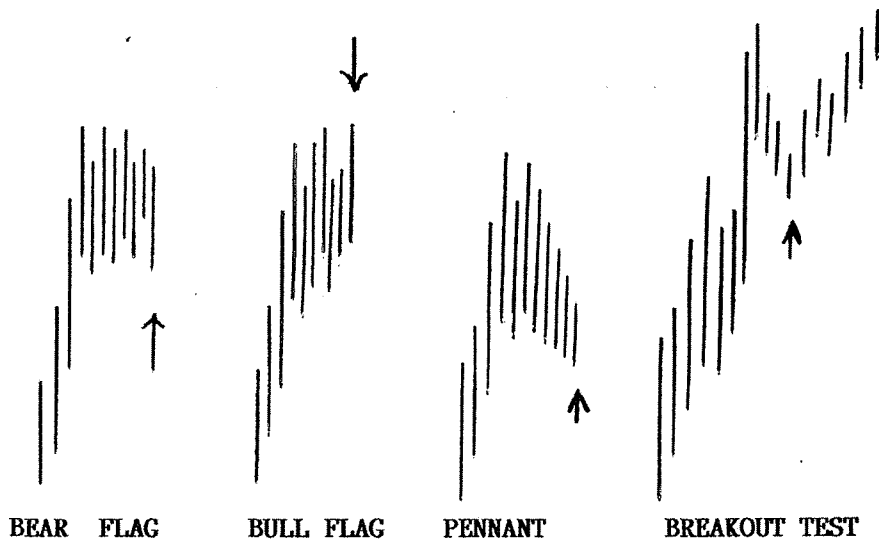
What has taken place now, gold has surged higher post 2007 thanks to the same banks requiring yet another bailout - TARP. This is not just inflation. We are on the verge of a currency meltdown this time.

Instead of holding the December 2010 high, gold will exceed it in March 2011. If we do not surge beyond \$1531.19, then we can still pull back at the very worst to 1040-1150. Getting ABOVE that level to \$1775, on the Middle East stuff, then the base support will simply move higher into the \$1400-1500 level.

The price is not the big issue. It is the PATTERN that unfolds. We did NOT want to see just an exhaustive **PHASE TRANSITION**. This may be more likely in silver right now than gold, only due to the fact that silver has always been highly volatile.

Nevertheless, What we want to see is a June low regardless of the support level involved. A June high would be on the PI cycle and that would be much higher in the \$2,000-\$2500 level, with the pull back then in the fall (Oct/Nov). The projected resistance in June stands at \$2010.





## HOW

**HOW** markets actually develop as patterns is also important. The **WHEN** are fixed points in **TIME** so it will not change that the week of June 13th is the key week to watch to see what market lines up with this point in **TIME**. Nevertheless, it is **HOW** we also approach that point in time that helps to determine the events that follow.

There are two types of **FLAGS** that are sideways base building patterns at higher levels. These are scaled by the timing level one looks at. For example, the Dow Jones Industrials rallied to test the 1,000 level three times, in the 1960s, 1970s, and 1980. Some made just slightly higher highs and then fell back to retest support. The fourth time came in 1985 and it blasted through to a new trading range. This was a long-term **FLAG** where it is a sideways market in price that is equivalent to a decline that goes nowhere. That base becomes the platform for the next advance and thereafter it becomes support. It was a **BEAR FLAG** for the final test at the **TIME** target (**WHEN**) was a low.

A **BULL FLAG** would be more dangerous for the last thing it produces is a high from which a decline is likely. So a high 6/13 week warns of a retest of support in Oct/Nov 2011. We would have to then look very carefully for it would warn of a possible postponement until 2016.

The **PENNANT** is the triangle formation that narrows until it reaches a point from which it will then explode in the opposite direction of the pattern inside the point.

The **BREAKOUT TEST** pattern can unfold either by a retest of the 1000-1150 level where that low comes in during the week of 6/13, and then it would flip to the upside and begin to move sharply higher as did the Dow Jones coming out of 1985. The second possible pattern is you do exceed the **TOP** of the **PRIMARY CHANNEL** at 1531, and that means you could rally to reach the 1775 level, fall back to retest the 1500 level, and then proceed to rally to new highs.

This is the **SUBJECTIVE** area of analysis that will often fall into more of an art form than a concrete science. There are other tools to help qualify this and remove the human subjectivity that leads to error regardless of who is the analyst.

The **KEY** is to see if **GOLD** begins to at last line up with the **ECM**. If that indeed takes place, this will signal more than anything else that we are in fact at the threshold of a serious economic event that will change the world over the next 8.6 yrs. This is not a question of if gold is trading up or down for speculative purposes. We are facing something **FAR MORE** significant than just a bull market in gold. This is the real leading indicator to watch at this time. It is a window to the future that we need to see what develops. Short-term, we have the low or **SPIKE HIGH**. Long-term, a low the week of 6/13 is a warning for the next 8.6 yrs.