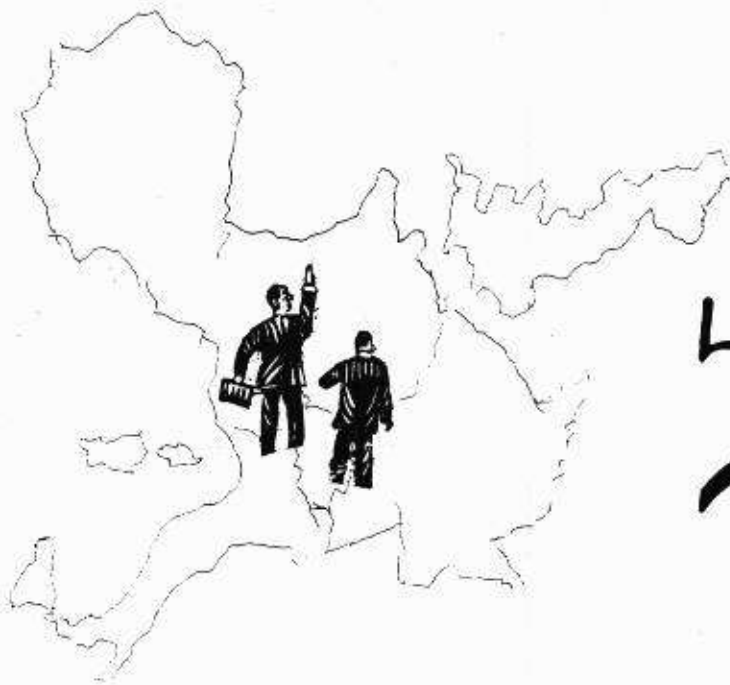


# Armstrong Economics™

## Destroying Capital Formation Economic Suicide



MARX'S  
LAST  
LAUGH!

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

PLEASE REGISTER YOUR EMAIL ADDRESS  
FOR ANY UPDATE NEWS

ArmstrongEconomics@GMail.COM

---

Copyright Martin A. Armstrong, all rights reserved

---

This Report may be forwarded as you like without charge. It is provided as a Public Service at this time without cost. The contents and designs of systems are in fact copyrighted. At a future date, a book will be released **The Geometry of Time**. The charts are often reproductions of an earlier publication from 1986 also to be soon republished **The Greatest Bull Market In History** covering from 1900 up to the 1980s. Additional updating is underway to complete the Century and into the current time, providing a month to month history of the financial development of Western Society.

---

DESTROYING  
CAPITAL  
FORMATION

ECONOMIC  
SUICIDE

MAEX'S LAST LAUGH!



I realize that arguing to end income taxes (direct taxation), may seem to be absurd. How will government survive? Well, China has now emerged as the second largest economy, without personal income taxes, and we did fairly well until it was created by the "Progressive" Republicans who were about as socialist as one could get in 1913. We must understand that the reason why the smartest group of men expressly forbid incomes taxes, was because once any form of direct taxation between the state requiring personal information from the citizen took place, liberty vanishes.

It is not just Obama. Germany, England, France, and Japan, not to leave out the rest of the G20 nations, (except China), are all attacking the tax havens from Switzerland and Liechtenstein, to the Isle of Man, and the various island nations that harbor numerous corporations. Switzerland has been threatened and caved in blurring the line in their own laws that made **Tax Fraud** criminal, but **Tax Evasion** only a civil penalty.

Like a spoiled child, the West is demanding to invade the tax havens and seize every penny offshore in the name of Karl Marx. They see this as their property owed to them by their own sumptuary tax laws designed to create equal economic justice irrespective of work, in the spirit of Karl Marx whose theories they still cling to yet never admit who envisioned them. Like a child who only wants to eat chocolate, Western Government is on the verge of absolute economic suicide and there is nobody to even argue the other side.

Wiping out offshore tax havens will be cheered by those who have no such funds. But what they fail to understand, is that the cornerstone of economic growth is the unequal distribution of wealth. When wealth concentrates, people can further the economy and create jobs because they see the opportunities and are willing to take the risk. It becomes one person's decision - right or wrong. Sometimes they fail - lose everything to the wheel of fortune. At times, they create major needed innovations like discovering aluminum or oil and may create new technology like Polaroid, enabled by the investment of Dreyfus.

When capital is dispersed, you end up with no risk taking, no economic growth, because an idea requires collective thinking that will never happen. That is why Communism failed and why Socialism is coming right behind it. Spreading the wealth evenly, is what took place during the dark ages.

The G20 is about to meet in London. They will never see that the problem just might be their excessive debts, bloated wasteful governments, and their Marxist philosophy that all earnings by the citizen are really the property of the state. They will attack the offshore capital like it were a terrorist. When they are done creating thousands of more criminals and confiscating all capital they can find, it will be too late to realize the damage they created.

Attacking the offshore capital around the world will dry up lending even more, but the real casualty, will be the wholesale destruction of offshore hedge funds. This multi trillion industry will be reduced to dust, force widespread liquidation, and may drive global stock markets to the brink of extinction. We may see the Nekkei 225 in Japan fall to 10 cents on the dollar, for Japanese have been investing offshore for the past 20 years due to the collapse in local income opportunity be it in equity, economy, or even interest income. Japan, like the United States, has a worldwide income tax. This is destroying the Japanese economy far more than anyone cares to publicly acknowledge.

The wholesale attack of offshore so-called tax havens, does not end there. Much of that capital goes into global investments. We may see the next wave of liquidation that the politicians did not bother to even look at before they acted. Offshore cash has also fueled national debts. US Treasuries have benefited tremendously. However, now the US wants to even tax foreign investment in government bonds. It is like every possible penny is being pursued like never before.

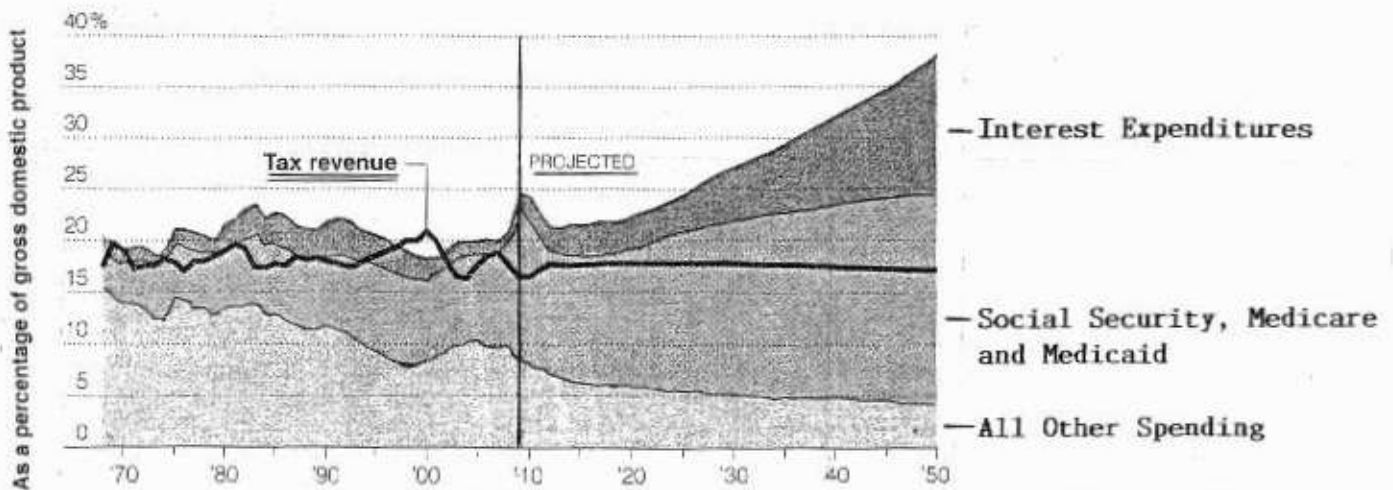
I was traveling once from London back to the United States the day before 4th of July to spend with my family. To avoid traffic in New York, I decided to change my ticket and fly to Philadelphia at the last minute. To my surprise, the IRS was conducting a sting operation looking for Americans living overseas, who returned only for holidays, and were not paying taxes in the United States. I was pulled over by the IRS. They questioned why I changed my ticket as if I had some sort of inside information about the drag-net in New York. I pointed out I lived in the the United States, paid my taxes here, and traveled around the world 3 to 4 times per year for business. It was interesting to say the least. This was back in 1997. One can only imagine what is going to take place now. Merely traveling will thus create the presumption you have a hidden account and you can bet you will be interrogated like you are a murder suspect. Thank you Karl Marx!

We argued against the Berlin Wall. Presidents traveled to Berlin and gave speeches - "takethis wall down." Now, the United States has built its own wall with Mexico and there is talk now about placing troops along it, but also checking all who leave. Taxation renders all citizens the property of the state. That is the very reason why the Founding Fathers knew well, there should never be any direct forms of taxation. Passports were a Roman invention to collect taxes.

We already print money in the form of debt that becomes international dollar reserves, yet we pretend it is not really money. There is no longer a need for taxing citizens directly on a national level, because money is no longer gold and it can be created by the state at any time. Afterall, it is not like we spend only what we tax. We always create more money than what we collect in taxes because the government has always spent more than its income.

What we must understand, government spending without the economic crisis at present, is on target to explode due to the Baby-Boomers coming into the Medicare and Social Security category as well as Medicaid. The interest expenditures will rise to nearly 40% of all spending. Before the economic crisis, the future was

## United States Total Projected Spending



Source: Center on Budget & Policy Priorities

(Figure #1)

looking rather bleak. We can see from (Figure #1), that the Social Security, Medicare, and Medicaid expenditures are going to crowd out all other spending. You can just imagine what will happen by the Obama plan to add healthcare without any tort reform.

We have politicians making the same mistake that AIG London made - just write the business and worry about paying off if and when that day happens. Who will then criminally prosecute the politicians? The promises with no plan to fund this nightmare is irresponsible. The solution of raising taxes and hunting down every penny belonging to an American overseas, will destroy the economy, eliminate liberty and seriously run the risk of global war.

We have to stop this madness. We should create the funds that we need fixed by law to a percent of GDP that is predefined and cannot be revised to manipulate the spending. If we do not abandon Marxism, we will commit political suicide. As we rush to bailout investment bankers, we must realize that adding trillions into the bailout mixt now, creates a much higher yield curve that will appear between private and government debt (private eventually dropping below government), and drive the percent of GDP attributed to interest expenditures I would estimate to now exceed 70% by 2050.

If we do not get a grip on what is really taking place and instigate real and major tort reform in the healthcare industry to stop the excessive growth due to the legal fees, we might as well turn out the lights, look for a cave to hide in, and wait for the big bang before you emerge. Can we really be this stupid?

The excessive borrowing does not avoid inflation. We are shipping boat-loads of interest payments overseas and that is not even stimulating the domestic economy. Eliminating income tax is just a small drop in the bucket. This will be so needed to restore our economy and it is the only hope we have. The 1964 Tax Cuts were the only measure that ever worked because they were seen as a real and permanent drop in taxation that the public filtered into their spending. Tax rebates are nothing. Many have gotten \$5 or so extra in a pay check. This is nothing. All we will see is hoarding tax rebates because there is no hope in the future. It is time to wake up just once and smell the roses.

Direct taxation, has always been the **Destroyer of Civilization**. When Constantine the Great came to power, contemporary writers recorded events stating that there were more tax collectors (army) than tax-payers. Indeed, following the Great Monetary Crisis of the 3rd Century, the Roman Emperor Diocletian created the concept of the passport and restricted movement to ensure that the government would collect its taxes. We no more live in a free society today than they did in Imperial Roman Times. Whatever the government demands, it will justify, and the courts are merely the extension of the Executive desires. Estate taxes and gift taxes were all created by the American Supreme Court by splitting hairs claiming that they are not "direct" forms of taxation since one is dead, or a gift is not the form of normal income. In my own case, Chief Judge John M. Walker, Jr, President Bush's cousin, kept grabbing my appeals illegally, refusing any right to appeal when Congress established one for civil contemnors, and then ruled that because I was a corporate officer, since a corporation has no rights, then neither can any officer. To keep me in jail for more than 7 years denied any right to bail, an appeal, or trial by jury, Judge Walker removed all rights of all corporate officers in the United States just to make sure the government will always win, despite the fact that all civilized nations have agreed not to **torture** citizens and **torture** is now defined since 1992 by Congress as the deliberate coercion by arbitrarily imprisoning or detaining an individual;

"whether physical or mental, is intentionally inflicted on that individual for such purposes as obtaining from that individual ... information or a confession, punishing that individual for an act that individual ... has committed or is suspected of having committed, intimidating or coercing that individual ..."

**Torture Victim Protection Act Pub.L. 102-256, Mar 12, 1992, 106 Stat 73, §3(b)**

The point I am making, is that I was once naive. I believed our America was a honorable nation. I believed I would be treated fairly. And then you are hit in the face with reality that no one sees until you dance with the beast. Just as Socrates was dead wrong believing that in a Democracy, justice would always prevail, his famous debate with Thrasymachus recorded in Plato's Republic, spoke the truth far more than one can comprehend. Thrasymachus argued, correctly, that justice is the same in all forms of government from dictatorships to democracies. He pointed out that all laws were passed in the self-interest of the state. Therefore, justice is the the same in all forms of government, it is only the self-interest of the state.

Adam Smith (1723-1790) was a student of history. He studied both Greek and Roman and I believe was perhaps influenced by Thrasymachus. For within Thrasymachus' view of justice being the self-interest of the state, we also find Smith's **Invisible Hand** that dictates everyone acts only out of their own self-interest. I was tortured by the US Government, sanctioned by Judge Walker personally, showing that the idea that Republics are pro-business, is absurd. Republicans are pro-Republicans. They no more care about the liberty of citizens than the first democracy in Athens cared about executing Socrates because they didn't like to listen to what he had to say.

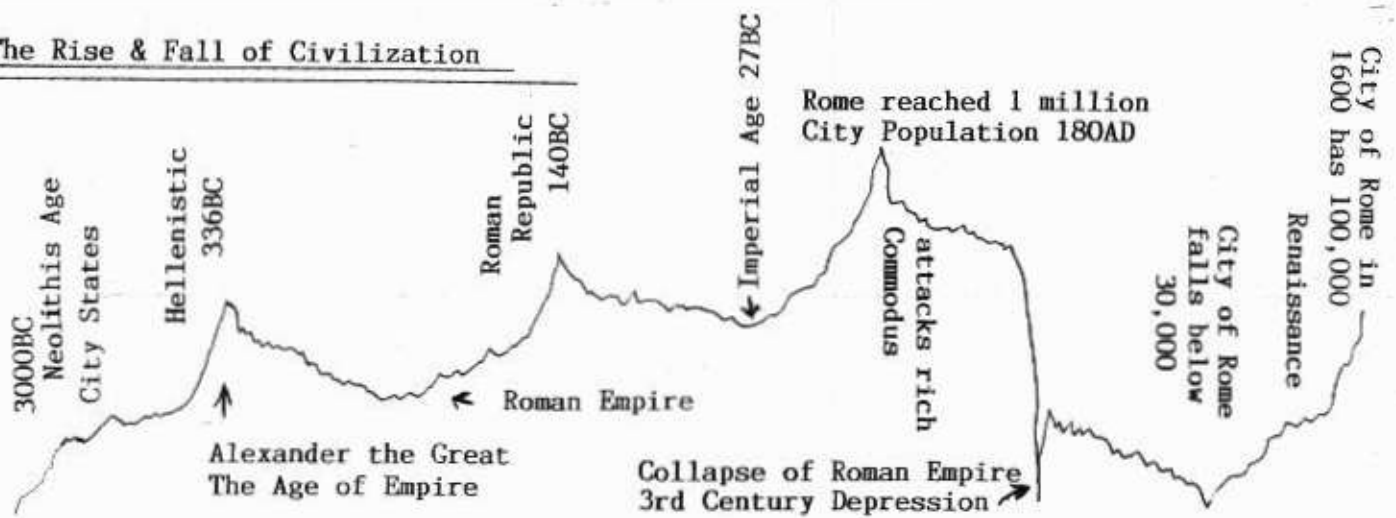
To imprison me, denied every possible dignity and right secured by the Federal Constitution, and International Law, they anointed themselves to claim it was not me personally they were torturing, but only a corporate officer who has no rights. That means the United States is no better than any ruthless Banana Republic because they have held in my case that anyone working for a corporation, no longer has any rights left at all. Alexander Hamilton wrote that "the practice of Arbitrary imprisonments have been in all ages the favorite and most formidable instruments of tyranny." Federalist No:84.

Numerous people wrote to John McCain, Arlan Spector, Patrick Leahy, Hillary Clinton, and countless others all asking how can the United States torture a citizen for so long. I have been told by many, they would never respond. Politicians know the truth about what is going on today as they did in times of Socrates. Both Smith and Thrasymachus were correct, they will only act in their own self-interests, not for justice, God, liberty, the American way, honor, or dignity, and certainly not for the Constitution. Whenever the self-interests of Government conflict with the Rule of Law, judges will split hairs, try to stretch the law, to enable in the end, the self-interest of Government to prevail. Conviction rates in the United States in the feds have reached 99%, exceeding the infamous Star Chamber of the 1600s and the Spanish Inquisition. This is the reality of which we now face. Most major newspapers will never report the truth for they too can be threatened using the law that can be now crafted to embrace whatever conduct they may like to sanction.

This is all part of the cycle. Edward Gibbon pointed out in his celebrated **Decline and Fall of the Roman Empire** that one of the primary causes for the whole collapse of the Roman Empire is present currently in our own system - the sheer corruption of the **Rule of Law** that emerged as the government stacks the courts to ensure that they will always win. Edward Gibbon made it perfectly clear that corruption had infiltrated the entire criminal law process and that indeed a "distinction of every kind soon became criminal." Id./Chp IV. Under the reign of **Commodus** (180-192AD), the son of **Marcus Aurelius** (161-180AD) with whom the line has been drawn for the peak in the Roman Empire, we find that **Commodus** began to target the rich by the abuse of his criminal laws, because of the loss of economic power. **Commodus** began to target the rich to confiscate their wealth no different than we are about to begin today. Gibbon noted that the mere "possession of wealth" during the reign of **Commodus** made you a target and "[s]uspicion was equivalent to proof; trial to condemnation." Ibid. Under **Commodus**, the conviction rate also rose to virtually 100% like that currently in the United States or the reign of Joseph Stalin (1879-1953) in Russia.

When the **Rule of Law** collapses and the self-interest of the state dominates, capital cannot long survive. It flees. Rome had emerged as the biggest city ever to exist as the population reached 1 million. People began to flee from Rome during the reign of **Commodus** and this trend was given a latin name - **suburbium**. The rights, privileges, and immunities disappeared and the thrust of Roman Law became only the self-interest of the state. The government prosecutors, Edward Gibbon wrote, became the "most worthless of mankind [who] are not afraid to condemn in others the same disorder which they allow in themselves; and can readily discover some nice difference of age, character, or station to justify the partial distinction." Id./Chp VI. Rome collapsed because the **Rule of Law** became corrupted. Gibbon put it well, that Rome simply became "corrupted by the multiplicity of laws" that the judges, being pro-government as the majority are today, merely "interpreted" the laws "according to the dictates of private interest" and that the criminal justice system in Rome "was pregnant with mischief and disgrace." Id./Chp XVII.

Right now, the formula that HUD uses to identify mortgage fraud, has been now expanded, based upon information and belief. The government is expanding the power to prosecute "mortgage fraud" locking up thousands of mortgage brokers, but leaving the investment bankers untouched. The epic center, AIG, remains untouched. There will be no criminal prosecution of AIG, Goldman Sachs, J.P. Morgan Stanley, for that is not in the self-interest of Government for that would expose their own corruption of selective prosecution. We will see a vast line of mortgage brokers going to jail to make it "appear" like justice is being done, that is indistinguishable from the criminal prosecution of a gun dealer because he sells guns, but leaving the gun manufacturer untouched. The corruption of the **Rule of Law** in the United States as also evidenced by the failure to ever investigate Madoff, calls into question the honesty in regulation within the United States. This is giving pause to international investors who are better-off looking at London.



There is a cyclical trend to everything. Just as there is the theory of the Big Bang whereas everything was condensed into a single space and then there was a vast explosion, the theory is that the universe is still expanding, yet it may be like throwing a ball in the air. It overcomes the gravity to rise, but then that gravity continues to pull down upon the ball and it slows to the point it stops rising, and then starts to fall back.

What we must understand now there is nothing that exists forever. No matter what we look at we will find the rise and fall just like the ball thrown into the air. When we even look at the collective society of mankind, Western concepts are always distorted into seeing a linear progression that does not exist. We know that empires rise and fall like Rome, but what we fail to comprehend, is that there is also a cyclical rise and fall to the very concept of civilization. Like big bang, people come together forming a family, then a tribe, then a city, someone assumes control transforming it into a city-state, this gives way to a national state as one begins to merge city-states either voluntarily or by force, and the national state progresses into empire. The empire falls, and there evolves what the Romans invented the word for the flight of people from the cities - **suburbium**.

Rome itself had become the largest city in the known world at the time of the reign of Marcus Aurelius, a number that was staggering in those days - 1 million people. To put this in context, as the flight from the cities began in the 2nd Century AD, the collective concentration was vanishing like the big bang, people began to leave cities and run to the suburbs, setting the stage for the decline and fall of the Roman Empire and what we came to define as civilization only with the advantage of hindsight.

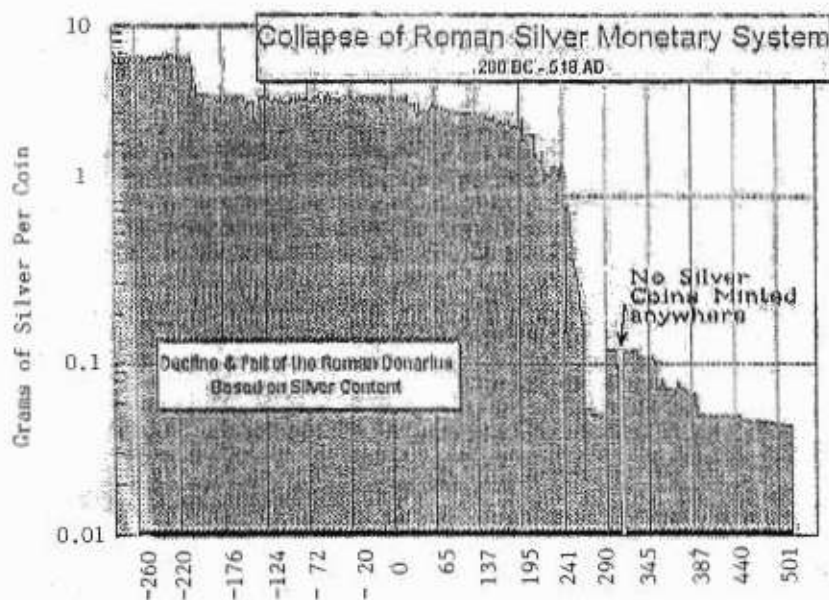
The first cities began to emerge during the Neolithic Period (late stone age) about 3,000BC in Mesopotamia, Indus Valley, Yellow River, and the Nile River region. Cities began to emerge into a variety of governmental forms, largely supported by religion. We find a wealth of different forms of government from dictatorships, monarchy, communism, religious states, and then in 509BC we see Rome overthrow its Tarquin king and gave birth to the concept of a Republic, meaning in latin "**res publica**" (thing of the people), which is followed by the birth of Democracy the next year in 508BC in Athens.

As city-states rose, in Greece, they were called "**polis**" and the lack of unity led the Greek city-states to fall during the Hellenistic era to the invasion of the barbarians led by Philip II (382-336BC) who was succeeded by his son, Alexander the Great III (356-323BC). The concept of city-state gave way to national-state, that soon gave way to empire. But upon the death of Alexander, his empire broke-up and was divided among his generals, falling back to national-states.



Rome also rose from the city-state phase. At first, there was a Latin League in Italy. However, fear that Rome was becoming powerful, led to the Latin War of 340-338BC, roughly the same time period of Philip II or Macedonia's invasion of the Greek city-states. Rome won the Latin War and thus emerged as the dominant new power in central Italy. It spent the next few decades with three wars to take the northern region of Italy against the Saminites with the final war taking place in 298-290BC. Rome turned south to conquer the Greek settlements in Italy and that was the famous **Pyrrhic War** (280-275BC) against the King of Epirus and the Molossian ruler Pyrrhus (319-272BC). This was followed by the Punic Wars with Carthage that resulted in the destruction of Carthage and the sale of its entire population into slavery in 146BC. Rome then turned toward Greece and absorbed Syria, Macedonia, and all of Greek states followed by Egypt.

What we must understand is this cycle of civilization itself as people group together, and then break-up and go back toward the city-state model. What made the Roman Empire blossom was that it was smart enough to take the best from those it absorbed. From an economic perspective, the Romans not only invented concrete that is the reason why much of what they built still remains as a testament to their existence such as the Colosseum opened in 80AD seating 50,000, but the invention of the Roman paved roads and communications allowed the flow of commerce and expansion of the economy. It was the fall of Rome from the reign of Marcus Aurelius (161-180) that began the **suburbanization** of civilization. The corruption of the **Rule of Law** led to massive exodus. By the Third Century, the economic decline was in full force.



Copyright Martin A. Armstrong

We can see the collapse of the Roman Monetary System during the Third Century took an amazingly short period of time to crash - 13 years. Yet, during the reign of Gallienus (253-260AD), the coinage declined by virtually 95% in value. It this **suburbanization** that had truly began in force under the reign of Commodus (180-192AD) that led the rich to flee from the cities and with it the tax revenues. The cities became ever more reduced to rabble and corruption became widespread both in government and in the ethical conduct of the people.

As the collapse of order had begun, this led to the worst of all Christian persecutions in history authorized by the new Roman Emperor, Diocletian (284-305AD), most likely instigated by Galerius (305-311AD) who had been made a Caesar, second to the Emperor known as an Augustus. We find the contemporary blame for the Economic Decline of the Third Century was placed upon the Christians claiming they offended the Roman gods causing them to punish Rome. The worst of the Christian persecutions was thus linked to the economic depression.

It mattered not. The economic decline set in motion by the **suburbanization** of Rome sparked the invention of passports under Diocletian, property taxes, and the direct taxation based upon wealth. While there was a brief recovery in the monetary system, the taxation furthered the disunity and gave greater incentive for the **suburbanization** trend that resulted in the collapse of civilization as we know it. This only led to the massive Barbarian invasion in the 4th Century and the fall of

Rome itself in 476 AD to the Ostrogoths. By the 6th Century just about 52 years later, the population of Rome had fallen to below 50,000. The **suburbanization** and the dispersement of society swung back to the disunity and feudalization of Western culture. The wheel of fortune had completed its revolution. Rome had reached its peak as a cultural center with a population of about 1 million in the Second Century, fell below 50,000 by the Sixth Century.

All that was left of Rome was the Catholic Church. The vision that the Church had displaced the Roman Empire itself, is exaggerated. There was a revolution in 1143 of the landed nobility against the Church due to the need to pay taxes. By 1420, the Church assumed absolute papal rule of the city of Rome. There was nothing left. However, the population also fell to its lowest point, less than 30,000. It was the fall of Byzantium in 1453 that led to their scholars fleeing to Rome and setting up schools that sparked life back into civilization. This was the true bottom for Rome and it was this point forward that the concept of civilization was re-emerging from a world still predominantly in a feudal system that evolved back into a city-state system as evidenced by the reemergence of Venice, Genoa, and Florence built upon international and inter-state trade. This reappearance of the city-state in medieval times was built upon self-sufficiency. By 1600, the population of Rome had once again grown to exceed 100,000 illustrating the cycle of what we call civilization.

Therefore, the city-state model eventually once again fell to the national-state model in Europe, imposing a new form of centralization of government. We must also realize that the fall of Rome and the **suburbanization** of society created the dark age for it is the collective cooperation of people that sparks the great leaps in our knowledge. One can be the smartest person in the world. Yet he still cannot cross that bridge to wisdom without interaction with others. Just as Rome had peaked in the 2nd Century AD with a population of about 1 million, we must now place this in the time line of history. The next city to emerge with such a population was London during the late 1600s-to early 1700s. We are looking at nearly 1500 years had passed before enough people would come together once again to form a great city.

By 1850, still less than 7% of the world population lived in cities that were greater than 5,000 inhabitants. By 1950, 30% of the world population lived in cities greater than 5,000 people, with that being 60% in the United States, Europe, and Japan. Yet, the **suburbanization** of American society began once again in the 1960s. This became referred to as the **urban sprawl** inventing like the Romans, excellent transportation allowing for workers to now commute into the cities. However, as the taxation continued to rise in cities, then the jobs began to leave and even work once more fell to the trend of **suburbanization**.

It was the Industrial Revolution in England that truly led to the great growth in city populations. Yet the same model prevails with its ebbs and flows like the tides of the ocean. Taxation will always be that driving force that will both create the attractor as well as the detractor.

The Greeks called the city state "**polis**" that was derived from the citadel, acropolis. The citizens became the **politari**. City-states began to create colonies and compete against each other in Greece. These dependent privileged communities became known as "**municipia**" and thus even the origin of the word "**politics**" comes from this same concept of city. From the collapse of Rome in 476AD, the revival of city-states did not take place under the 11th Century.

No matter what we look at, there is a cyclical trend that emerges. It is the same trends that always resurface, which is why we often say history repeats. Our problem is we can surely learn from the past, but our politicians are not in the least interested in trying to improve society, only control it for the moment.

# ~ Civilization v Suburbanization ~

We are now in danger of allowing Western Culture to fall back once again. It will be the vengeful taxation and hunting of scape-goats that will drive people and capital away from our centralized governments just as **Commodus** did in ancient times. The one thing that never changes is human self-interest. People will react to the same oppression of government no matter how patriotic they may then try to label turning over all your assets. It may be ironic, but we are already seeing investment banks setting up shop in China where they can once again manipulate markets and hide their activities. The failure of the United States to honestly regulate will only further the destruction of our Western civilization. They can lie to the people and work behind closed doors with those who would destroy the free markets and all our liberty, but in the end, it is the cycle of our own destruction.

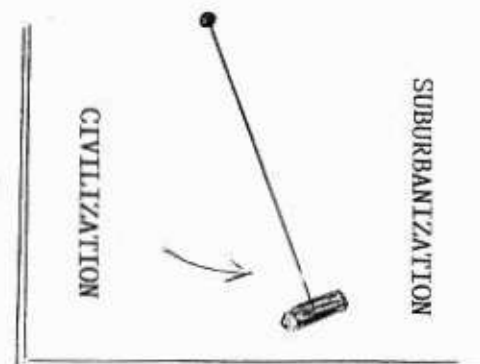
Once offshore accounts are targeted like **Commodus** targeted the rich, they will seal our own fate. Those who have accounts offshore will be criminally prosecuted even if they now voluntarily report what they have done. The governments want that money and believe it is their property anyway. We may see this trend cause the exodus to China just as investment bankers are now setting up **black pools** to hide who trades what. The threat of these actions will have serious consequences;

- (1) more Americans will abandon their citizenships driving the best and the plain old brightest overseas;
- (2) and they will cause a massive liquidation of cross-border investment.

If there ever was teeth to the term coined in Europe, "**Capital Protectionism**" it will be in this new context whereby national-states search out tax-shelters, attack other nations, confiscate whatever they can, and set in motion not a trade war, but a **Tax War**. It is ironic that perhaps the only safety will be in China. This trend could cause a capital flight from the West to China just as insane taxation drove the population away from cities, and then national-states in Europe, to America where there were no income taxes until the Republicans passed in 1909 amending the federal constitution by 1913.

It is this trend, driven by the sheer thirst for taxes and the corruption of the **Rule of Law** that destroyed Europe, shifted the center of the global economy to the United States, and now we appear to be on the verge of making the very same mistake again.

It is still the driving force of Adam Smith's **Invisible Hand** that caused government to over-reach out of its self-interest that then conflicts with the self-interest of the individuals. The benefits of creating civilizations have been the expanding of knowledge, creating flourishing art, providing improvements in technology and social structure. There is also the benefit of collective construction, roads, communications, fire departments, law, safety, water and sewage. Rome not merely created roads and communications, but it created public baths by providing public water supplies by "**acueductus**" that we still call today and aqueduct. These are the benefits of society. However, once the self-interest of the state emerges into greed, the **Rule of Law** collapses into sheer corruption putting an end to all the benefits obtained by a collective society. We cannot alter laws and allow corrupt judges and prosecutors to rule for they will destroy everything that creates the incentive for civilization.



The word "civilization" does not appear in our English language until 1772. The reason for this is rather simple. When sometimes you are standing in the very center of something, you cannot see the forest for three trees. Like the Earth, we cannot appreciate that it is a globe by standing in one spot and observing the horizon. If we walk towards it, we still do not experience we live on a globe. The reason why not even the Romans had a word for "civilization" is because they did not understand what they created. They saw power and empire. The concept of "civilization" emerged only with hindsight being able to look back and see what once was, had been lost, and reemerged once more. This is why we find that the influx of knowledge from the fall of Byzantium in 1453 had sparked the age they called the "Renaissance" taken from the Latin meaning "rebirth" of collective society and culture we eventually called "civilization" three hundred years later.

We must comprehend that there is a swing to and from collective organization we call "civilization" and this must guide us in our progress development of our society. We must not repeat the same mistakes of hunting down the rich as Commodus. We must embrace the fact that we have now set ourselves free from the gold standard and stop the pretense of being prudent or even concerned about paying off the debt. As Adam Smith pointed out, no nation to date has ever paid off its debt.

Let us end the insane direct taxation that destroys civilization, personal liberty, and will surely lead to war. We no longer need to hunt down every dollar for we can control the supply of money from a prudent management perspective. We need to face reality, start the monetization of debt that we will ultimately and surely default upon anyhow. We need to end the interest payments that will crowd out all other spending and destroy our societies perhaps within our lifetime.

We are printing the money in any event. The stimulus packages are trying to re-inflate making up for the destruction in capital formation that was created by leverage and the private sector. We should tie money supply growth to a global standardized GDP that is calculated by a central unbiased entity such as the United Nations. This would end the local political temptation to manipulate the statistics to create money at will. Eliminate the debt and prohibit state borrowing. If we cannot borrow as a state, then perhaps we can avoid the destruction of our societies.

People will immediately think this is inflationary. That is old school thought that died with the gold standard in 1971. Worse still, we must live within our means as a society and stop bribing the people like the Romans did handing out free bread and games. This is our long-term future we are dealing with. The fate of our own children and grand-children. Can we be so casual with their future and seal their fate? Would you sell your daughter into marriage for a good price? If the answer is no, then why should you jeopardize her future by borrowing now what she will have to pay the price for tomorrow?

Marx is dead. So should his ideas be allowed to die. We are surely stupid if we will respond only to the quick fix, and set the stage for disaster that cannot be avoided. Conservatively, we are looking at a \$30-\$60 trillion dollar deleveraging. That means creating even \$5 trillion will not be inflationary. We need real reform. Reform that will restore confidence, bring back jobs, and stop hunting down capital and citizens. There would be no hedge funds if we got rid of the CFTC, SEC and folded them into a single entity to regulate the economy with a single set of rules for all administered by the Federal Reserve. The SEC & CFTC have done far more damage than good by giving the false impression that they make sure investors are safe. They do not audit any big houses, and are manipulated by the Investment Banks, which is why they prosecute small offenders, not people like Madoff, Goldman Sachs, Merrill, AIG or anyone else of size. They prosecute the little guy to pretend they are doing something. If we stop the bullshit regulation, stop the bullshit taxation, and stop the borrowing, just in the last 20 years, we would have saved \$6 trillion in interest expenditures. That would have paid for healthcare. We need a new start to survive.

# Share Markets

## Dow Jones Industrials

I provided the adjacent table in the December 24th, 2008 report providing the overall support and resistance levels going into 2009. The Dow closed 2008 at 8776.39 dead center between the resistance and main support of 7400 for the year-end closing. The low of November 21st, 2008, formed at 7449.4 and that has now given way falling already to the 6470 level for the first week of March in 2009. We can see that the two main support levels of 7400 and 6600 have now been penetrated and this now brings us to 5000 and 3600 as the primary support below the market.

It remains a potential for a **Waterfall Effect** where we just collapse into the summer reaching the 4000 area. This would be the most positive development we could expect, for this would signal that the end is now here and we may see a bull market at last start to emerge thereafter. The main resistance is standing at 8400, and we need a weekly closing back above this level just to negate an immediate **Waterfall Effect** for the conclusion of 2009.

The earliest turning point appears to be April 2009. Yes, we have the half-cycle turning point for April 19th, 2009. Usually, the half-cycle targets do not produce major events. There have been some exceptions such as 1987.8 produced the precise low for the crash on October 19th, 1987. If that were to produce a reaction high, then we may see the market turn south for a low in July 2009 on an intraday perspective. The key weekly target seems to be the week of July 5th, 2009. A simple **Breakline** on the monthly chart places the ideal technical support at around 4200 for July.

## S&P 500

The S&P 500 fails to show a major isolated high for 2007 when compared to the high in 2000. It still appears closer to a double top formation, that long-term tends not to stand. This suggests that when the deflation ends, inflation should carry the S&P 500 yet to new long-term highs, but not before making your nose bleed on the way down. We obtained an annual closing for 2008 at 900.10, below the resistance at 1058 yet holding the support at 795. Going into the first week of March 2009, we have seen a collapse to 665.70. Our next main support lies at 600, with major support at 460. The ideal target would be in the 460 zone by the summer.

From a timing perspective, April remains a key target. A high in April would suggest a July low. Only a meltdown to the key 460 area in April would suggest the low is in place by the last 2 weeks of April.

DOW	SP500	NASDAQ
14200	1588	2260
	1423	
12600	1360	1770
11980	1280	1650
11000	(1220)	1570
10800	1120	1558
10650	1090	1495
10500	1058	1490
10000		
9700		1300
		1265
	795	
7400	762	
6600		995
		855
5000	600	800
3600	460	520
		400

# Market Outlook

# Market Outlook

## NASDAQ 100

The NASDAQ 100 still has the major high as the Bubble Top in 2000 from the Dot.Com era, establishing the high on March 24, 2000. We saw the major low form in 2002 with the **Economic Confidence Model**. We have so far still held the 2002 low. Going into March 2009, we have held the November low for the the first week. Nevertheless, the November 2008 low of 1016 should still give way, since 2002 still now remains as the lowest annual closing as well.

The annual closing for 2008 was 1212.50. A monthly closing below the primary support at 950, should signal the final decline is here. There is additional monthly closing support at 840. There is additional support targets at 740-750 and 520-550. Here, the timing is still April, followed by early May, July/Aug and thereafter November. Where the Dow and the S&P 500 peaked on October 11th, the NASDAQ 100 rallied into November 1st, 2008. There have always been some slight differences in timing on this index.

## Metals & Energy

Gold remains as perhaps the best performing instrument so far. It has decoupled from oil and at long last, begun to take shape reasserting its true role, not the hedge against inflation that has been the selling pitch for decades since it was legalized back in 1975, but instead, it remains the historic hedge against the destabilization of government. We are currently not in an inflationary mode, but a deflationary one where what we are looking at is the collapse of money supply. What we may see is currency inflation, but the likelihood to destabilization of states is the stronger probability. Crude oil, is not black gold, just energy.

Gold	Silvr	Platm	Palla	Coppr	Crude	Gasol	Htg01
1100	1650	1560	980	416	100	365	275
1034	1500	1350		380	96	292	264
875	1492			304*	79	252	222
848		1095*	430	280	71	250	218
838		1030	420	240	56		
800	1100		405	200	55	148	
		960	390	155	50	144	160
		950	378				156
		820	345			134	145*
780			315			117	
735	925		300		(40)	103	
604	850			135			
540	825	775	275	132	29		132
520		760*	240		27	90	115
460	650		180	105	25		
(420)	595	595	178	90		78	87
410	(540)	440		85	17	75	80
(370)	480	350		70			65
320	440		145			52	48
			120				

### Gold

Gold may yet knock on the door to \$1,000 three times before it explodes. Gold reached its high on March 17th, 2008 at 1033.90 and it closed 2008 at the 884.30 area - above the 1980 high of \$875 suggesting we are indeed still in a long-term bull market.

The initial resistance is the previous high at 1033. However, the overhead technical resistance still stands at 1100, yet this is not formidable. This resistance is really scaling upward between the 1100 and 1200 area.

Calculated as of Dec, 5th, 2008

We must realize the timing elements at work. If we were to see the decline of the stock market that bottoms in advance of the main economic low, then we are looking at Oct/Nov 2009 measuring from the real peak in the real estate, Japan, and a variety of global markets and indicators - February 26th, 2007 on the **Economic Confidence Model**. If we were to use the empericial high in the Dow Jones Industrials, then the starting point would by October 11th, 2007. Applying the timing from the Great Depression, we are looking at 32 months from the peak to the bottom. Using the October 2007 high, then to equal the end of the Great Depression in equities would be June 2010.

Gold rose between 1932 and 1934 from \$20 to \$35. However, this was due to the confiscation of gold as a private asset by FDR and his attempt to devalue the dollar just as the government is trying to now "stimulate" the economy to also create inflation. Therefore, if we were truly to repeat history once again from a timing perspective, the major thrust upward in gold to at least the \$2,500 level should come also with the low the Dow Jones Industrials. The fact that gold is knocking on the door again to \$1,000, is a good sign that we are building a based for such an explosion.

From the highest week closing in gold back in February 2008, there has been the perfect 32 week decline into October 2008. That low matched the precise same timing unit for the peak-to-low in the Dow Jones from the 1929 high to the 1932 low - 32 months. This low from a timing and technical perspective appears as though it should hold. This is also nearly a perfect 8.6 months from the highest close on a monthly basis of February 2008 while the intraday high took place on March 17th, 2008.

Short-term weekly cycles would appear to suggest a rally may reach a temporary high near 1,000 for the weeks of March 16-23. If this is true, then a retest of support is possible going into the idealized target of April 19th, 2009. Should we find gold make a low at that time with the TV talk that the recession is over because the Dow has rallied into that target, then we may see a reversal of fortunes with gold rising and the Dow falling into a July or October turning point. If gold breaks through the 1,033 level, then we could see a high form as early as September, with a retest of support. Yet we should see perhaps in 2010, a correlation between the Dow and Gold reverse, whereby both begin to rise against the instability of government finances. This may result not from the "trickle-down" economics of Ronald Reagan, but the "trickle-up" economics of Karl Marx spreading poverty around equally rather than the free market that cannot be defeated in the end. Commodus tried that approach, and destroyed the Roman Empire and set in motion the destruction of civilization.

The next technical barrier will be slightly above the current high, forming at the 1100 and 1200 area. Once we begin to see gold close above the 1200 level, then we should start to see the **Phase Transition** type move that will carry it upward to about \$2,500. It is still entirely possible for gold to even reach \$5,000. That is the extreme projection that would signal serious decline in public confidence in government as a whole. Reaching \$2,500, is a normal stage of market development. This is still not the end of the world.

# Market Outlook

# Event Horizon of the Dollar

## Market Outlook

US\$	Euro	BP	SF	\$A	\$C	YEN
104	150	211	9200	9400	111-	127-
(92½)	(146)	199	8900		101-	
91	(137)	195	(8850)	8210	9200	
89½	136	193		8000	8650	
	134	192	8450	7900	8550	100-*
	129			7800	8500	9900
					8400	9800
		178½	8150	7650		9750
87		172	7900	7450	7880	9400
(85)		171½	(7550)	(7250)		9350
(84½)	126	170½	7450	7000	7800	
83	124			7000	7600	8700
82				6700*	7200	8250
81	118	154	(7000)		(7150)	8200
	(117)	149				8100
			6650			
74				5500		7950
	103	145		5000*	(6170)	
		140				

Resistance & Support levels for a Year-End closing to 2008.

Europe has the collapsing Eastern European debt that is putting intense pressure on the Euro. Europe faces what the US Banks faced back with the South American defaults. Consequently, Europe is being hit both by the de-leveraging of debt, and the risk of an Eastern European default on debt, all combined with the unwise rigid control of the Euro\* The survival of the Euro under such intense pressures, places a continental risk factor on the currency. This is keeping a bias toward the dollar, and we may yet see recovery in the A\$, C\$, and even the old British pound.

The interesting factor not followed by the general press, is the maturity holdings of US debt by foreign nations. China is shortening its maturity horizon. We see the Fed announcing it is buying long-term debt under the pretense of lowering mortgage rates. This is the trend in any event and the event horizon in debt is collapsing rapidly. That means that even China is shortening its maturities and thus we can just listen to the propaganda, but long-term rates will rise. Therefore, the prudent would extend his debt at fixed rates before it is too late.

The dollar does not yet appear in danger of a collapse just yet. The event horizon is shortening. Nonetheless, the serious problems may start to emerge after the summer of 2009. This is the true catalyst that will be behind the gold rally - not inflation, but currency destabilization. We need to pay close attention to maturity of holdings of China - the last source for excessive cash.

The fate of the dollar has the majority confused. Those in the United States keep looking at inflation and expect the dollar to collapse. What they fail to understand is that this is always a battle of the lesser of evils. It is not the amount of money that is now being created approaching \$3 trillion. We must contrast this against the amount of capital destroyed by the de-leveraging taking place in the debt area both public and private.

Being very conservative, if the amount of de-leveraging in global debt is at least \$30 trillion, even if we pump-in \$5 trillion, it would not be inflationary. Money supply is created more by the private sector than public through leveraging that we measure as velocity and capital flows.

\* interest rates must be allowed to float between nation members.