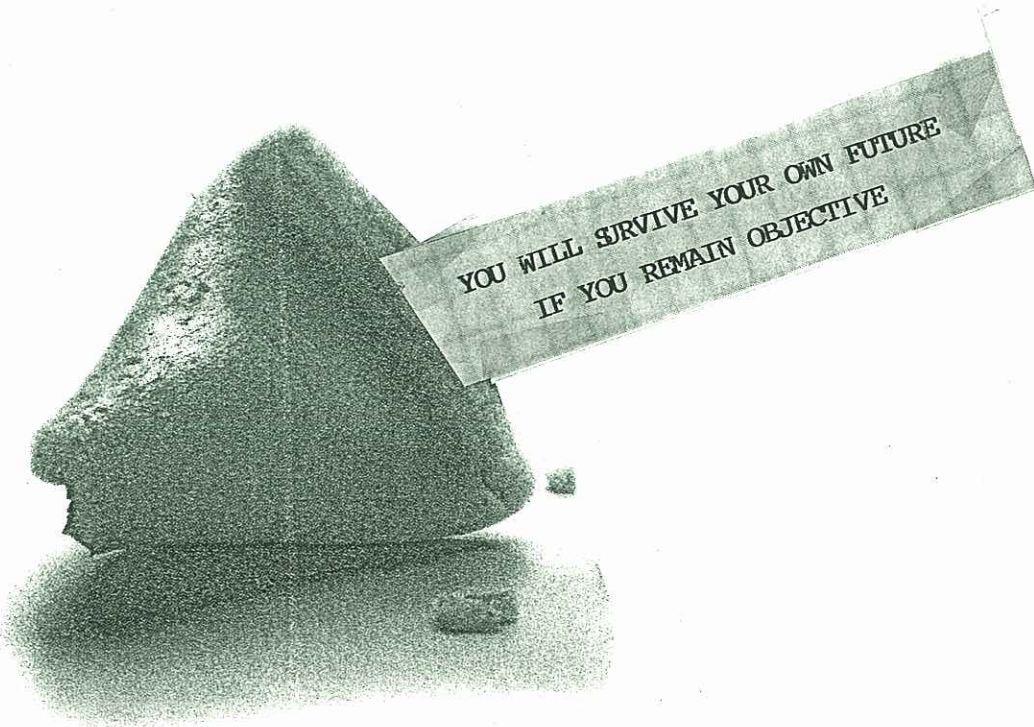

Armstrong Economics™

Objective

V

Subjective

Analysis



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

A C K N O W L E D G E M E N T S

I would like to thank the many people who have been writing from around the world. It is encouraging to know that there are so many people who are interested in uncovering the truth. I have also special thanks for so many providing valuable insight into trends around the world from China, Soviet Republics, South Africa, Brazil, Australian, and India. I believe we can survive the folly of governments even if they refuse to listen. The key is understanding the nature of events, and that allows us to correctly make the decision to be on the opposite side.

I would like to also thank all my old friend and former clients for their support and to know that they have continued to gather information that serves us all in times of crisis.

We are standing on the precipice of a new era in global-social-economics. How we enter this new age is of critical importance. Government is incapable to doing anything for any reform of its own abuse of power is not up for negotiation. We must weather the storm, and to do so we need to understand its nature. Just as the 1930s Great Depression set in motion profound changes that were even manifest in geopolitical confrontations, we have now reached such a crossroads. A debt crisis has its tentacles deeply embedded into every sector right into government. This is the distinction from a mere stock market crash that never alters the economy long-term. We are seriously still over-leveraged and some banks are still trying to be hedge funds and have to speculate to make a profit. That is a key warning sign that the worse is yet to come.

Comments, Suggestions & Questions

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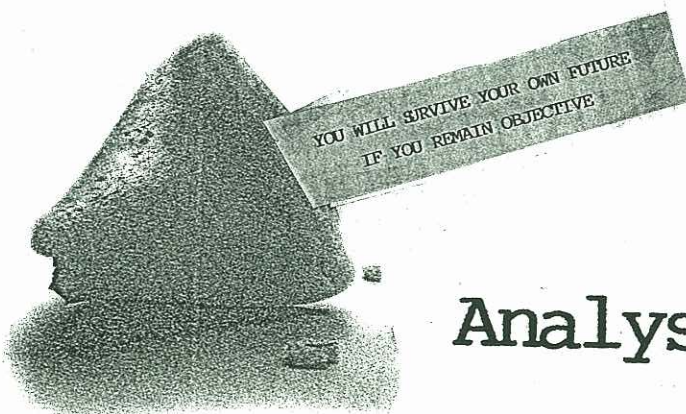
This Report may be forwarded as you like without charge to individuals or governments around the world. It is provided as a Public Service at this time without cost because of the critical facts that we now faced economically. The contents and designs of the systems are in fact copyrighted. At a future date, a new edition of the 1986 The Greatest Bull Market In History will be released and a new book will soon be published on the model itself - The Geometry of Time. It is vital that we do not forget this is a world economy and the arrogance that any nation can dictate to the world is just insanity. Every nation affects all others no different than if one nation were to pour all its toxic waste into the ocean. Everything is interlinked and solutions are never isolated events.

Objective

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by: Martin A. Armstrong

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

NOTHING can be more dangerous than **Subjective Thinking** and when blended with law and politics, you quickly submerge into a deep crevasse that results in endless disputes and no action emerges. The United States political system is handicapped by a very serious defect in our fundamental way of thinking. Lawyers have dominated American politics from the beginning. By default, **legal thinking** is like taking a microscope and constantly zooming in tighter and tighter until it is no longer just looking at a nose, but is now focused on a life form living within the mucus attached to a nose hair. What is happening is where there is usually the danger of **Subjective Analysis** that is simply based upon opinion and **Objective Analysis** based upon evidence and study without bias or a quest to prove a predetermined outcome, when it comes to Government, we end up with not only the **Subjective** form of thinking, but we also then blend that with **Legal Thinking** based upon no rational real world experience that now prevents economic evolution and leads to violence and profound civil unrest. When Mr. Clinton was deposed as President, he was asked a question, and he responded as we now expect all lawyers to act: "What is your definition of is?" Because government is run by lawyers, we are caught in a **myopic** nightmare where we are so short-sighted, we cannot see the future with a search light. When Social Security was enacted, it was a 64 page act. The Healthcare bill has exceeded 2,000 pages. This is what happens when the lawyers are piloting the ship. China, who not only believes in cycles that enabled the government to realize change was coming anyway, and their politicians are far from being lawyers, but are more practical in their training as engineers, has resulted in the much more adaptive form of governing the state and economy **than** what we have seen so far in the West. **Dynamic Thinking** remains the key.

The reason why fundamental analysis always fails, is because of the Fish Bowl Economic Thinking whereas there is a vast array of external forces that can overruin domestic thinking and cause us to create solutions that only lead to new problems. Just as attempting to predict the future from pattern analysis such as **Elliott Wave** or technical analysis is limited by the very nature of Subjective Thinking rather than Objective Analysis avoiding "opinion" reasoning, we are doomed by the merger of Subjective-Legal Thinking that is undermining the evolution of American economic progress.

Legal Thinking has been so destructive to society for it encourages tyranny, major oppression, and corruption in just everything. What happens is a loss of ethics, and the focus now becomes how to technically just lie to make it appear you are doing the right thing. For example, they passed the **Child Pornography Act**, but when a 17 year old girl took nude pictures of herself and sent them to an 18 year-old boy-friend who showed his buddies, he was now locked up and is being criminally charged with child pornography. The prosecutor and the judge see that this technically fits the words, but have lost all common sense destroying society completely.



Chief Justice Roger Brooke Taney
(1777 - 1864)

There is no better example how the phrase of William Shakespeare, "**The First thing we do is kill all the lawyers,**" comes into focus when one looks at how a nation that is governed by legal thinking can get so lost in its thoughts, we are incapable of moving forward. The man pictured above is the notorious **Chief Justice Roger Brooke Taney** who led the Supreme Court into instigating the **Civil War** when it delivered one of its most destructive decisions in history that illustrates how there truly is no rule of law in America, for we have allowed the blending of Subjective Thinking and Legal Thinking that has been undermining America and will destroy it completely. It was **Taney** who wrote the notorious decision Scott v Sanford where Dred Scott, a black slave, was taken to a state by his master where there was no legal slavery. He sued for his freedom, and lost. **Taney** wrote claiming that every black free or slave, was forever to remain a degraded life form within civilized society and could just never rise to a level worthy of American citizenship. This legal reasoning, he argued, was "**too plain to be mistaken.**" He argued that a century before the **Declaration of Independence**, he claimed blacks had "**been regarded as beings of an inferior order, and altogether unfit to associate with the white race, either in social or political relations and so far inferior, that they had no rights which the white man was bound to respect.**"

The Supreme Court was composed of **Taney** (Maryland), **Daniel** (Virginia), **Wayne** (Georgia), **Catron** (Tennessee), **Campbell** (Alabama), **Grier** (Pennsylvania), **McLean** (Ohio), **Nelson** (New York), and **Curtis** (Massachusetts). The

decision was to be written at first by **Nelson** and was drafted upholding the lower court that **Scott** was still a slave narrowing the question to only the validity of state law. The opinion was taken from **Nelson** and then given to **Taney** to write. This switch has been long debated as to why the justices did this. But make no mistake, there was only one man on the Court at that time who was outright against slavery on a moral issue, and that **Justice Curtis**. That meant that the Southern block could dominate the Court while others like **Nelson** were prone to use myopic reasoning to avoid broad decisions. Both prejudice (Subjective Thinking) and (Legal Thinking) combined to create the Civil War in which more Americans would lose their lives than in all other wars combined.

Taney was of the opinion that the South could not break-away and thus the only simple solution was that the nation had to embrace slavery and it was the Supreme Court's job to shove that down everyone's throats. This was his Subjective Reasoning that was based upon his personal opinion. What he did, was in fact force war upon the American people. For what you can gain from objective analysis, is a picture that many fail to see.

At Princeton Economics, we obtained the price data for slave auctions pre-Civil War through a variety of sources including those published in newspapers. While I do not have access to that study at this time, what it revealed was that as the population growth of slaves was taking its course, both natural and limited importation, the price of labor as reflected in the cost for a slave was in fact declining. Thus, from a wealth viewpoint in calculating the amount of land and slaves one owns, it was in a downward spiral.

In 1855, the national population was in excess of 23 million whites, yet there were only 350,000 slaveowners. The Missouri Compromise had skewed the balance in favor of the North and the abolition of slavery. Then came the Kansas-Nebraska Act that only in theory seemed to suggest that slavery would survive. Yet this failed to stem the rising problems and actually helped to bring slavery to the front-line of politics. Like today and how the left and right are speaking in such hateful ways toward each other, the same trend emerged at that time as well. What was happening, slavery was dying of its own weight.

In our analysis of the US economy pre-Civil War, what must be understood is that the decline in slavery was a natural consequence of sheer economic evolution. As the economy of man was about 95% agricultural in the Dark Ages, as trade began to re-emerge and then the Black Death wiped out the labor force of serfs causing the "price" of labor to rise giving birth to wages, slavery became an alternative to the shortage of labor.

However, since ancient times, slavery was justified as the spoils of war. Blacks were taken from Africa sold by other tribes as war captives. But the Romans saw serious problems with slaves. (1) they drove down the price of land and produce making small independent farmers obsolete, and (2) as the population grew like hamsters, so did the risk of rebellion. There was the very famous slave uprising that was led by **Spartacus** in 73BC. **Spartacus** escaped from a training school for gladiators in Capua with about 70 other slaves. He took refuge in Mount Vesuvius and news of this spread far and wide. Suddenly, slaves began running away and joined **Spartacus** causing his numbers to rise to now 90,000. **Spartacus** defeated two Roman consuls (generals) in 72BC. He fought his way through Italy trying to reach the Alps and freedom. When the slaves did not want to leave Italy, he turned south toward Lucania now seeking to cross over into the island of Sicily. But he was prevented from this goal by a new Roman consul sent against him, **Marcus Licinius Crassus**, who was eventually a supporter of **Julius Caesar**.

Spartacus divided his army with the Gauls and the Germans forming one contingent. **Crassus** had 8 legions, with about 32,000 men. The Gauls and Germans were defeated and **Spartacus** actually died in battle. **Crassus** wanted to send a message, and he crucified about 6,000 prisoners all along the Appian Way, main road leading to Rome.

Rome began to grant citizenship to the people of its conquered land. There was too much cost to maintain slaves, and the risk of rebellion was squarely within its ranks. So when we analyze the pre-Civil War trends within the economy, we find the same problem beginning to rise. The cost of maintaining the slave population was growing with the population growth, causing the value of a slave to decline. Yet this also lowered the value of labor hurting independent farmers.

The rising costs of maintaining a slave population by itself would have rendered the operation a declining spiral by itself. But now add the problem that this was the start of the **Industrial Revolution**. The invention of the **Cotton Gin** alone, also reduced labor requirements for now a machine would separate the seeds, hulls, and foreign material from the cotton.

Therefore, aside from the moral issue of the abolitionists, the South was losing ground due to the natural economy of size and productivity. Had there been no Civil War, most of the slave labor would have been set free for it was impractical to feed the growing population with declining costs in production. Certainly, whatever slavery that might have existed by the early 1900s, would have been completely rendered obsolete by the invention of the automobile that quickly led to farm tractors and trucks.

Therefore, the trend of the South and slavery pre-Civil War, was already in a bear market. This is the same evolution process whereby the automobile wiped-out the buggy trade. It was one of the wealthiest men of that trade, **William Durant** (1861-1947) who founded **General Motors** for he could see the future where cars would replace horses.

It was the combination of **Subjective-Legal Thinking** that led to the Civil War. **Taney** tried to force slavery upon the whole nation to save a declining industry. They could not see the future because of their bias. We are in serious trouble for the very same reasons.

Those in political power will only see the solution as did **Taney**, force their will upon the nation rather than stepping back and looking at the declining trend in slavery that was taking place because of the economy and evolution rather than a result of the opponent's actions. This very reasoning must be opugned.

We can see the quagmire that has emerged in the United States because our "representatives" are predominantly lawyers. They have no experience in the real world, and thus they are the worst possible choice to lead a nation out of economic chaos. Lacking any real world business experience, they default to the **myopic subjective-legal reasoning** that dooms us all.

When I worked in New York prison held there for more than 7 years in contempt of court, there was a steady flow of young black men who came in asking advice regarding guns that they claimed were planted on them by the New York Police. Since I worked in the Law Library, this exposed me to a aspect of the economy I had honestly never investigated. I had assumed like the majority, that America was a just and honorable nation.

I did not believe these men at first for their speech and manners were very ghetto in nature. Whereas on the street, perhaps even I would have been apprehensive had they then approached me. But you see, for the most part in prison, there is tremendous respect among inmates. There are the bad apples. But for the most part, these same individuals would always say excuse me if they bumped into you and showed an underlying core of decency.

So many would come in to the Law Library with the same story about guns being planted on them, I finally typed up a motion and had advised them to ask for the fingerprints. To my complete amazement, the Government replied showing that as a matter of "policy" NYPD did not fingerprint guns. This meant that indeed, the police could just plant a gun on a young black kid and charge him with gun possession to get him 5 years. He does not have to use the gun against anyone.

Then I met a bunch of Italians who were claimed to be in the mob. I was stunned to see that the Government only presents a car they found at JFK Airport in New York, and argued that these Italians conspired to kill this man. They had no body. And they did not even know who supposedly killed this missing person. They didn't even have a body! Yet, they passed this alleged crime around at a few different trials, each time with new facts about how they conspired to kill this guy using informants who get to go home, yet nobody saw anyone kill this guy nor a body. I cannot tell you how many Italianians are sitting in jail for life on this nonsense. Even Chief Judge Mukasey commented because the Government was passing this alleged murder with no body and no witnesses at so many trials, he boasted, "Oh ya. I know this one. This is the guy nobody knows who killed him."

The point is, we have now exceeded 10% of the adult workforce on the street are now

felons whose civil rights are taken so they are denied most constitutional rights against illegal search and seizure for the government can just burst into their residence in the middle of the night. They are denied the right to even vote.

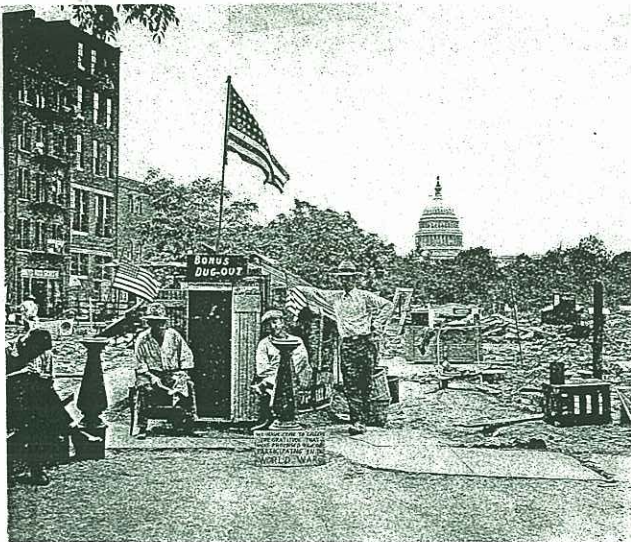
The real scary part, everything is now a felony. I cannot tell you how many people I have met for failure file income taxes or claims that they filled out some form wrong be it a bank loan or countless doctors and lawyers. The financial incentives are just so great, there is an economic benefit to criminalizing everything. Even in the new healthcare bill, Congress immediately put it 1 year in prison for anyone who refuse to buy their healthcare.

My deep concern about the future is that by criminalizing everything, America is not just the largest prison population in the whole world outnumbering China and Russia combined, but the gross total of the work force is about 15% counting those in jail, and of the blacks, it seems to rise to 40% of the male youths. They are stripping these people of all their rights and creating a permanent underclass that will rise up in economic hard times like they have throughout history. George Bush removed "rehabilitation" from the prison mission statement reducing it to just "punishment" and thus there is no system of education to turn anyone's life around. Federal prisoners are barred from using computers. How can these people ever merge into society. The government is taking 10 year minimum sentences that not merely prevents these people from developing any skills whatsoever, it extracts them from any family responsibilities and is creating an endless cycle of children absent any father and worst still, jail has now become a right of passage among blacks. It is bragged about in Rap songs, and I have found young blacks who plead to things they did not do because they are not considered a "man" unless he has gone to jail.

The sheer numbers are becoming so alarming we are breeding a petri dish of hatred and discontent. It is one thing to protect society from actual violent crime. It is another to create "conspiracy" and jail time for non-violent offenders that is clearly racially enforced. We are asking for trouble that will materialize in riots once again but on a much larger scale.

The reason I bring this up is quite simple. This is the rising seed of discontent. During the Great Depression, the unemployment rate was running about 50% in black Harlem. Americans were even migrating to Russia to join the Marxist vision of life. The American press were covering the progress of **Benito Mussolini (1883-1945)** as a viable solution. There were hundreds of books and articles all covering the alternative Marxist solution.

My concern about the abuse of law that is taking place on a wide scale basis since the courts have been stacked with former prosecutors who will never rule in favor of the



The Bonus Army "Cheered in '17,
Jeered in '32."

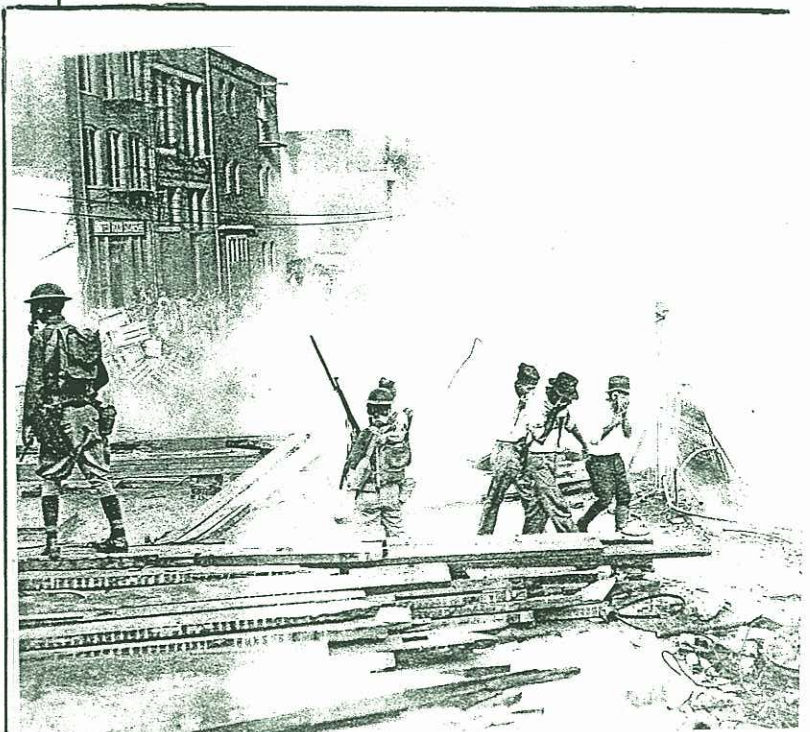
constitution or the people, is that when the hard times come, we will face civil unrest like never before. In 1932 when the World War I Veterans marched on the capital to demand a bonus due to the unemployment and hard times, the Government showed their thanks by sending in troops to drive them out of Washington. On the afternoon of July 28th, 1932, it was General Douglas MacArthur, side by side no less with Major Dwight Eisenhower, who marched upon the veterans with tanks just as in China and calvary. The troops charged against the Veterans and set fire to their tents and shacks they built. If TV were then available, it is hard to guess if history and opinion would have been different. They gassed even the women and children causing also an infant to die from tear gas. It was a ruthless attack upon the people of America.

The press was much freer back then and photographs began to appear in newspapers. The public opinion turned against the government and virtually a unanimous voice of the people found it an inexcusable act of violence against the people of the United States by its own politicians.

The Government came back and even MacArthur tried to justify his actions by now labelling the Veterans "criminals" and "Communists" to try to deflect the criticism. But the general consensus did not buy it at all. The Veterans were not armed and were certainly no revolutionary army. This event pushed the people in favor of the Democrats and it cost Hoover the election. The people saw these actions of 1932 just months before the election, as purely ruthless and un-American. They cost Hoover a great deal of his reputation in history.

The Government attempt to try to label the Veterans "criminals" to justify its own actions, could hardly justifying killing an infant. This illustrates the danger that all government always presents to the people it demands to rule.

It is the total lack of actual real world experience in Government that presents a major threat to our future. It is this lack of any **Objective Analysis** that dooms our future and we have to realize that what we are facing is the chaos of just opinion.



We face a serious problem for Congress is dominated by lawyers who have no practical experience in the real world, only the world of **Legal Fictions**. There can be no better real example than the Senate investigations into the Great Depression. The investigation was entirely sparked by a telephone call that was made to President Hoover alleging a secret conspiracy to destroy his administration led by bears on the stock exchange. It was called the "**billion-dollar bear raid**" and the pure hostility toward Wall Street came pouring out of the mouths of true idiots who were nesting in Washington pretending to be Senators.

They summoned Richard Whitney, President of the New York Stock Exchange ordering him to produce a list of every person who had taken a short position. The Senate's prosecutor was **Claude R. Branch**, a lawyer that illustrates my point entirely. Time Magazine even noted that the Senators were "impatient" in the case of Norbeck, Senator Glass was "sarcastic" and Senator Brookhart was "belligerent" through these senate hearings. No matter what evidence Whitney put forth, they refused to listen for they were biased, ignorant, and very dangerous men with power. Senator Glass in his stupidity revealed that fundamental analysis did not at all work, for he pointed to days where the news was bullish, yet the market went down. Whitney merely replied: "Liquidation by frightened investors who are giving these United States of ours away."

Whitney was forced to produce a list of 24,000 names of those who had short positions on April 8th, one day before the alleged "**billion-dollar bear raid**" and the senators were eager to tare them apart as traitors. The interrogation of Whitney illustrated just how ruthless men with power and no experience in a field can mislead the nation as a whole.

Senator Couzens: It has come to my attention that a broker may use his customer's stock to depress the value of that stock.

Mr. Whitney: Senator Couzens, I deny that!

Senator Couzens: How do you detect it?

Mr. Whitney: Our men check the brokerage offices.

Senator Brookhart: Do you think the rules you are constantly citing are enforced or evaded?

Senator Blaine: Maybe he thinks they are enforced better than the Prohibition Law of the Federal Government.

Senator Brookhart: You brought this country to the greatest panic in history!

Mr. Whitney: We have brought this country, sir, to its standing in the world by speculation. You think you can affect the world by changing the rules of a stock exchange or board of trade?

Senator Brookhart: Yes, we can change them by abolishing the stock exchange and board of trade so far as speculation is concerned!

Mr. Whitney: And then the people of the United States will go to Canada and Europe to do those very things and pay their taxes there!

Source: **The Greatest Bull Market In History**
Chapter XII, 1932, p418

Politicians know nothing about the real economy. Their plans are childish, just spend and hope that the economy will turn around. They never pick-up the rug and look at any trends, nor do they investigate with the idea of actually learning something. Everything is heated and designed to support a conclusion that has already been made. This is why I developed the reputation I had because I just was not interested in putting on a show. I testified before the House Ways & Means Committee for Chairman Bill Archer. They put panels together and apologized for they had stuck me on a panel of academics. I was last to give my testimony, and told it like it was. The other panel members when asked would the dollar change in value if taxation was changed replied, it should remain the same. They had no clue of what they speak for they never go into the real world to see how things work.

Between academics and politicians, it is hard to say who feeds each other's egos more. Meanwhile, the real world functions contrary to their nice theories, and all that comes out is confusion and conspiracy theories. I have studied law, and its micro focus prevents rational macro understanding. This is why we see China adapting much quicker because the politicians are not lawyers in their micro view of the world, but predominantly engineers who see the world in practical scope and comprehend solutions in the real world of economic interaction.

THINKING PROCESS is everything. I have been to China and behind the Berlin Wall before it fell. I have traveled the world meeting with the movers and shakers on every continent. This experience has taught me how to think more globally. For example, in Japan when you hand someone a business card, you just say very abruptly "meshi des" that translates as business card. In America, if you were to just hand someone a business card and say "Here, business card" they would look at you as being arrogant. They expect you to say "Here is my business card." But to the Japanese, they regard you saying this is "my business card" as being arrogant drawing attention to yourself as if you were saying "Here you smuck, this is my business card!" Language dictates thinking process as does culture. In Japan, a day, garden, or nature can be beautiful, but a woman can at best be pretty. We are so handicapped by **Subjective-Legal Thinking**, we truly cannot figure out how to get our head out of a bag and like a dog, we just keep backing up that of course doesn't remove the bag.

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

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

Nisbett correctly illustrates that thinking can be different. What we have to do is get away from this trying to blame someone stuff, and trying to fix the problem with rational **Objective Thinking** and then we can perhaps graduate to the next level in this real world version of **Civilization**. Because China understands cycles, they are not fighting the change as we see in Russia. Putin just created a new post to retain power yet at the same time pretend it is somehow a popular form of democracy. We too have no term limits and the same problem prevents progress. Lawyers control the Congress and they never leave to gather a real world experience. We cannot progress without an open mind willing to see the future and how all things naturally evolve.

There are people who refuse to listen to new ideas or anything that will change their world. Even in cyclical theory, they will not listen that this in no manner has any pretermind nature to it. We are simply governed by the same laws in physics that dictates everything around us. We are also no exception to the **Uncertainty Principle** of **Werner Heisenberg** (1901-1976) who showed that one can predict that a percentage of atoms would radiate at specific times but it was "uncertain" which specific atoms in the group would radiate. Society is purely a living organism as a whole. We are just individuals who are born, live, and die only to be replaced by other individuals. The **Economic Confidence Model** (cycle) is that of

the **group** and functions in the same manner as the **Uncertainty Principle** insofar as we can project the outcome of the group, but not the individual per se for we all still have free choice to chose sides in everyone of these cycles. If you have been burned on a previous crash and taken that as a valuable learning experience, then you will be the survivor for the next cycle. If you just seek to blame others for your loss, you will never progress and forever be trapped in the same side of the cycle. All markets are two sided and there is only one victor. The key to knowledge is to figure out which side will be the victor. If we merely seek vengeance for every loss, we will once more be caught on the wrong side.

Subjective Thinking has doomed just about every field in which it has been used. If we cannot look at something Objectively, we cannot see the truth. We must divorce passion and bias from reasoning. We are caught within a cycle of endless chaos for we are constantly trying to reorganize the economy based upon Subjective Reasoning. We cannot tell the economy this is what we think and thus this is the new law. If there is no Objective Reasoning on how things work, we are constantly going to repeat the same folly time and again.

Subjective Analysis Fails

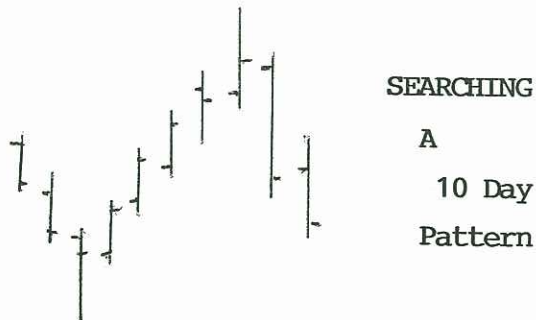
A friend once said to me why the major institutions around the world were relying on Princeton Economics. He said quite bluntly over lunch in Geneva, "Opinions are just like assholes. Everyone has one! We need facts only!"

I have received a lot of questions with respect to the New York Article and the many different forms of trying to divinate the future. I am not a supporter of Elliott Wave or other forms of subjective analysis because of the lack of raw hard facts.

At Princeton Economics, we always kept an open mind and tried to explore anything that may work. The computer would do pattern recognition. At first, I assumed it would be reasonable that you should be able to take the last 10 days of trading and have the computer search the entire database of that market and find a match and then see if the 11th day did the same thing as in the past.

The computer would precisely map out the last 10 days with a percentage relationship of the open, high, low, and close for each day and then in relative position to the previous day. To my shock, even going back 100 years of daily movement, the computer could not find 10 days that ever did the same on a precise basis. I began to then shorten the time span incrementing it down from 10 days to 3 days. Finally, when I reached the 3 days of a pattern it would find a couple. But still there was no definitive correlation to the next day.

I then instructed the computer to explore just the pattern of the 10 day period. In this way, we would take say 10 days and map out the



high was on the 8th day and the low was on the 3rd day and each day at least did the same as far as being an up or down day. Here we had much more success. But the results to predict that illusive next day, was at best 50/50.

We eventually developed some highly and very interesting accurate views under patterns. But this took a lot of computer power to do and some mind bending ways to carving up the patterns to be tested. What this exposed was something very embedded in everything that can be summed up as Is the glass half full, or half empty?

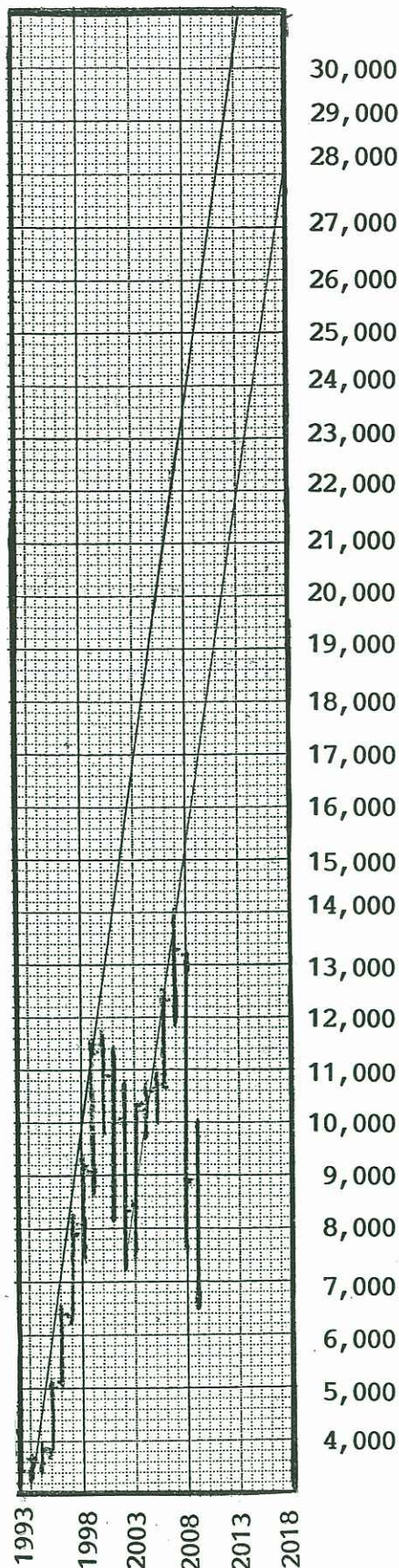
The human mind processes visual input in a unique manner from audio. Instead of listening to songs and determining if they spark some distant memory, visual input can do that, but it can also see patterns of faces or other things within clouds.

We can visually map out patterns without having the completed picture. It is true that we can listen to a brief portion and perhaps relate that to a known song, but when dealing with patterns, we can see faces that are not even known.

Therefore, when we come to pattern forms of analysis such as Elliott Wave or Technical Analysis, we are stepping into a world that is highly subjective. Two people using the very same methods can arrive at different end conclusions.

This is why the technical analysis I had developed was objectively based using purely the opposite events either side of a high or a low. I removed the subjective side of just drawing lines because they looked nice or had agreed with a predetermined expectation. This is why I believe that these forms of analysis can provide great targets for price, but they cannot tell you when or even if that expected trend will emerge. To accomplish this, we must divorce passion from reason for the greatest danger of Subjective Analysis has always been making the analysis fit preconceived ideas.

Dow Jones
 Industrials
 Yearly 1993-2009



One of the most interesting differences between the typical **Subjective Analysis** and **Objective Analysis** is who is calling the shots. Keeping in mind when one person looks at a cloud and sees a face, another may fail to see the pattern altogether. Our mind will fill in the blanks when use our visual process, so we must be aware of that potential.

Projecting the future on purely pattern recognition is very speculative at best. The critical factor will be the experience of the observer. One who has traded for many years will see in the patterns memories of trends long since past. Thus, someone who has been burned by a crash, if he does not embrace his loss and try to now reason why it took place, will end up being skeptical of every rally and only look for the opportunity to sell.

Others will pitch that nobody can predict anything so the key is to (1) hold long-term, and (2) average in on the dips. The problem here, when the big-one comes, you are totally wiped out with nothing left. This is the sales pitch taught brokers to drum-up business, not to actually help clients make money.

The real trick is to let the market tell you what to do, never try to tell the market what to do or should be done! There is an old saying - you can't fight the tape. That means the market is always right. If it is not performing the way you expect, you are dead wrong, never the market.

The Dow Jones Industrials is the perfect example. While it would have been nice to just get the Waterfall Effect into a June 2009 low at 4,000 and then swing like a pendulum out and to a new high for 2012, the market stopped precisely with the 17.2 month frequency from the 2007 high. This warns us that the March 2009 low may in fact hold, and while we should retest support, the low may be in place. However, I also warned that if we were to be on course for a dramatic rise into 2016, then the key will also require the Dow to start in part to move contrary to the dollar, which it has begun.

The critical resistance still remains at the 11,000 level on a monthly closing basis. The primary resistance for the year-end closing will stand at 10,800 and then 12,500 with the major support at 6,600 and 6,200. There should be forming a pivot point for next year at the key level of 8,800. If the Dow remains above this area, it will be short-term still positive. Falling below this level, will suggest we are turning for a retest of the support.

From a timing perspective, the key monthly targets are December and next May. We could still see new lows in May without a monthly closing above 11,000. But if December at least closes above 10,800, then a retest of support into May 2010 should hold the 2009 low. The now critical long-term support has moved up from 4,000 to the 5,000 level for 2010.

Being able to see into the future is a lot different than reading tea leaves or trying to figure out how the pattern will now play out over time. The market actually will tell you what is to come once you are willing to open your eyes to pay attention.

At Princeton Economics we devised the various different ways to carve up the key movement of the global economy and the core markets around the world. What was critical to comprehend was **TIME** and once you began to see that markets were fractal in nature, the movements were the same on all **TIME** levels.

Major trends such as the 2007.15 high on this cycle, are easily seen for they will unfold on all levels and thus proceed on a slow motion basis. Just as it can be stated with absolute certainty, that the global debt crisis in Western nations will resolve itself as always, and without exception, in complete chaotic default. **No government has ever paid off its debt.** Adam Smith pointed that out in his chapter on government debt back in 1776. Sadly to say, that statement has proven to be correct ever since.

Once a country begins to borrow, it is like a drug addict. It will never stop and at some point the interest will consume all productivity. No system can be supported on this basis. The government will first wage war against its own people as we are doing right now going after Switzerland. As they imprison and destroy capital, they will then reduce the economic growth. They will chase capital from the nation and cause it to be hoarded and that will reduce the velocity of money and thus further reduce the economic growth. Therefore, government will only see its self-interest, and that will prevent it from learning or listening to any alternative and that completes the cycle of collapse.

Just as I pointed out about slavery, it may at first sound nice that you can just buy cheap labor, but that has the adverse effect of lowering land values and makes the small farmer incapable of competing. It becomes self-destructive and eventually as the slave population increases, the cost per slave now rises. This became a major debate in Rome for its economic consequences created major problems.

Government debt functions the same way for the larger it grows, the greater the cost

will rise to support pre-existing debt as it now consumes all the productive capacity. In this cycle of debt, every nation has to date simply collapsed. We shall be no different.

Every society engages in **Subjective-Analysis** to disagree with that statement. Somehow we are different - more advanced in both our arrogance and stupidity. So as the wishful thinkers try to blow smoke to cover what they do not want to look at, the clock keeps ticking away.

The long-term trend is unquestionable. We will collapse without any dispute even possible. This is as certain as the sun will rise and the earth will rotate. It would be nice if Government would listen and we could do a slow burn to save the future. But that is just not going to happen with lawyers and academics at the wheel.

The markets will tell us what they are doing if you are willing to listen. In the Dow Jones Industrials, the 10,800 level is critical for year end. If the Dow closes above this level, it is warning that the wave of inflation that is on the horizon is in fact coming faster than anyone expects. A year-end closing below 10,800, will not be a sell signal, just a neutral indicator on the immediate time line for 2010.

Resistance will still stand at 11,800 for 2010 and the 11,000 and 10,000 numbers will present pivot points as well. We will see below 8,800 and 8,300 as initial key support with major support starting at the 6,200 level.

Closing support for the Dow will be at 8,600 and 7,200 levels. A closing below the first will signal a retest of lows for May where as a year-end closing below 7,200 will signal a test of the 5,000 level with the most extreme support at 3,800.

Keep in mind, however, this is a pendulum type movement. The further it goes to the support, the greater the energy will be to swing to higher levels in the future. There is no question that the two yearly targets for major crisis are 2011/12 and 2016. The market will tell us very soon how nuts this whole thing is going to get. Those who harp on the same old thing unfolding as 1929, only look at charts and know nothing about how the global economy interacts for back then, we were the creditor nation.