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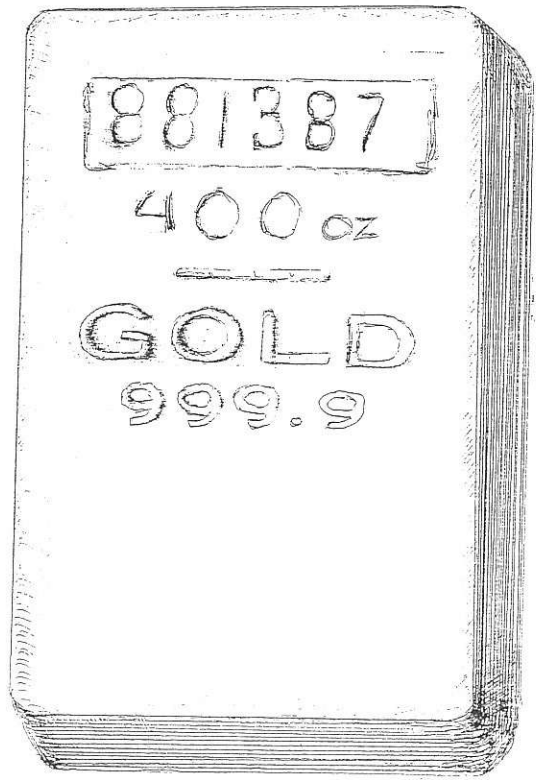
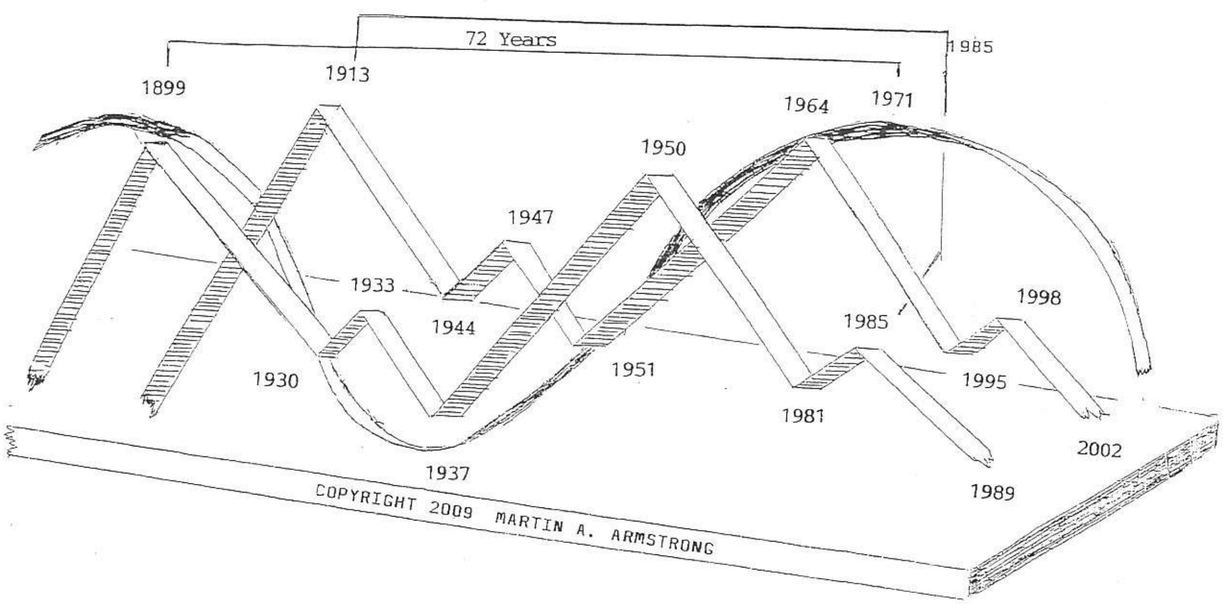
Will Gold Reach $5,000+?



Correlation of Cyclical Convergence
In the United States



Martin A. Armstrong
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 August 28th, 2009

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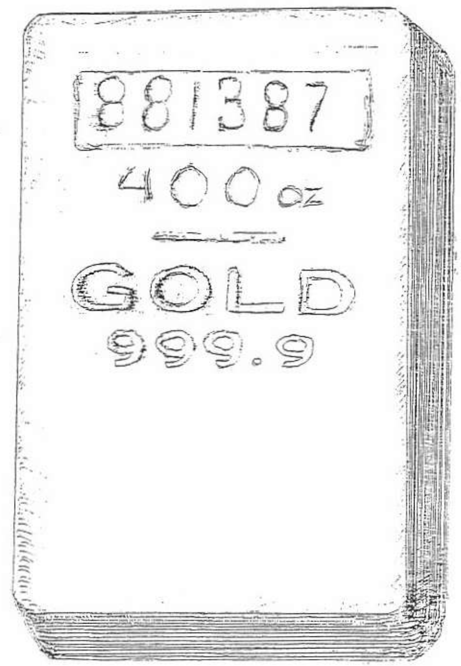


by: Martin A. Armstrong

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

GOLD has been one of the most misportrayed mediums of wealth since the 1970s. Usually it has been marketed as the hedge against inflation during the good old days of the 1970s and 1980s. However, this has been a great misconception of the role gold truly plays. It is coming into its own and is still poised to rally to at least test the $3,000 level if not much higher. But this portentous view harbors within a lot of correlations on a global scale that truly needs some in-depth understanding. **Gold** is not about to make such a rally without critical developments in government. **Gold** is **not** the hedge against "inflation" but against the "collapse in the confidence of government." Government holds power only for as the long as the people allow it. People are complaisant and will tolerate much. During the 1970s and the days of OPEC, I will never forget a riot in Philadelphia of white middle class workers overturning cars and setting them on fire because people could not even get to work. There is a thin line between civilized conduct and a mob. When people can no longer function in a basic way, holy hell breaks loose.

The US political government has just become the greatest threat to our way of life, it is hard to understand how we have degenerated with no sense of posterity. This recent incident going after UBS is a very serious departure in the entire **rule of law.** Switzerland has existed with its secrecy banking laws for a very long time. It was neutral during the world wars and its own **rule of law** has been respected by all nations until now. Why has the US now sought to destroy the civilization as we have known it? The refusal of government to live within its means is destroying everything. Instead of reforming, they are lashing out against our own people as well as the whole world. They justify their actions by their own self-interest. Whatever they decree the courts merely rubber stamp. We have no one left in our corner to prevent the economic suicide that is taking place.

In the last issue, I explained in a bit more detail the **Correlation of Cycical Perspective**, which I have defined as the Sixth Dimension of complexity. For the first time, I will now show the 51.6 year **Economic Confidence Model** aligned to the United States and we will see the dollar in a new light.

I have provided charts of the empirical Cycles of American Business that we first published back in 1979. This begins post-Civil War and clearly illustrates the struggling economy for there were more people killed in the civil war than most other wars combined.

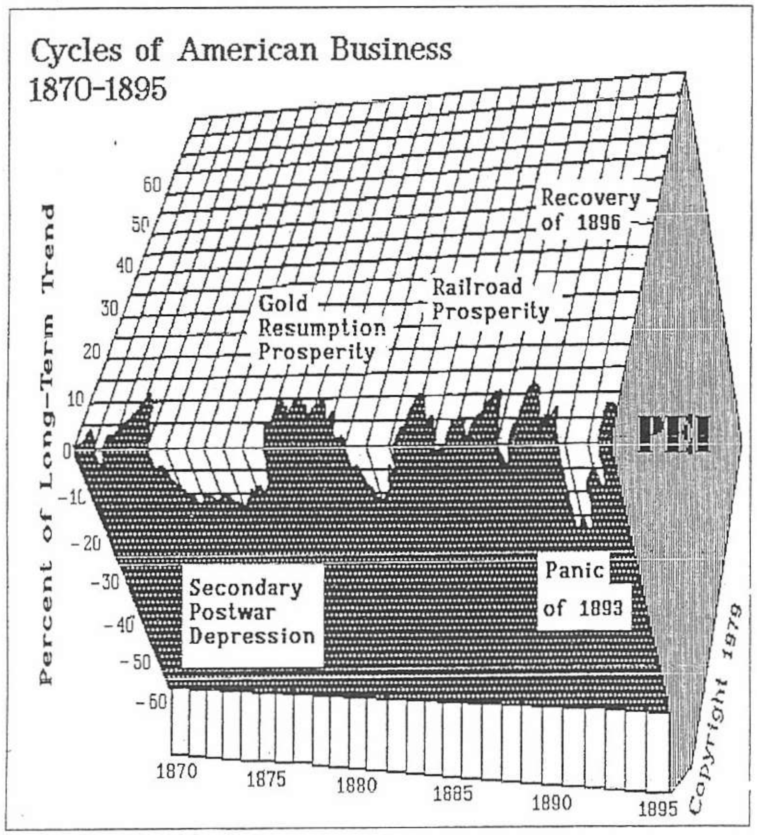
Our first chart begins with 1870 one year after the famous Panic of '69 where Jim Fisk and others tried to corner the market on Gold sending its value at the time to $162 per ounce. Adjusted for inflation, that price today would surely be closer to the $10,000 level in contemporary dollars.

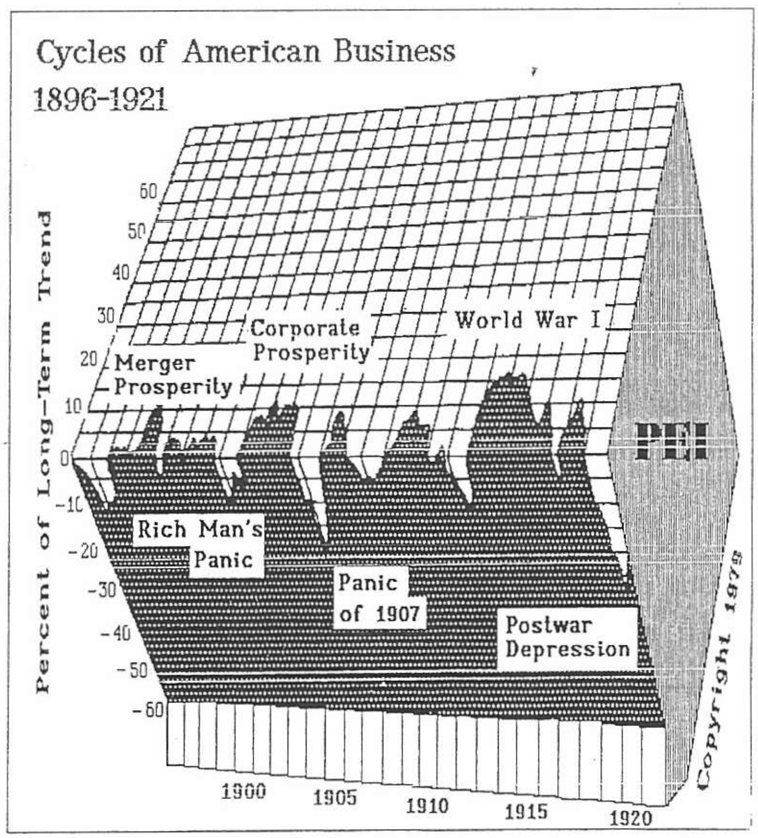
We can see the peak in 1873 from which there was a serious and steep major Depression that was known at the time as the "Secondary Postwar Depression." The recovery was attributed to a return to sound money known as the Gold Resumption Prosperity. The US had abandoned the gold standard during the civil war. There was no paper money printed by the Federal government until this period. All money was always coin after the hyper-inflation experienced under the Continental Congress.

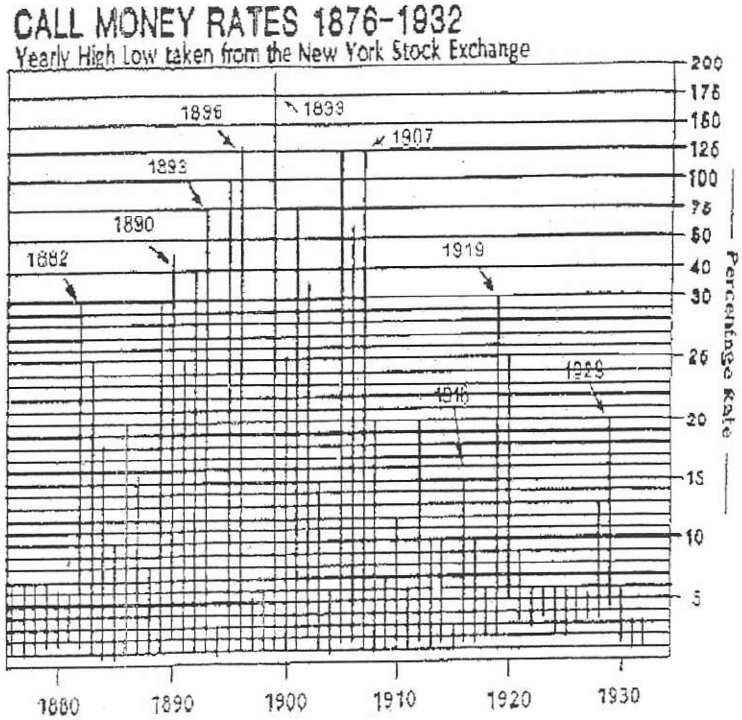
The paper money issued between 1789 and 1861, was all private notes issued by banks. When they went bust, these became collector items and are known as the "Broken Bank Notes" of the period. This is part of the huge battle between Andrew Jackson and the Bank of the United States.

The Civil War cost the United States dearly both in lives lost and in the amount of money. The major Gold Rush in California in 1849 had led to the images of the United States had its roads paved in gold. Gold became so common, inflation in the West ran at least 5 times greater than on the East Coast.

This is followed by the railroad boom that was the internet of the day for it gave birth to catalogue business such as Sears & Robuck. Now there was a greater market for goods nationwide. However, it was the silver discovery that now destroyed the economy.








Herbert Hoover

"Our Government would be subject to every political pressure that desperate foreign statesmen can invent and their groups of nationals in our borders would clamor at the hill of Congress for special favors to their mother countries. Our experience in war shows that foreign governments which are borrowing our money on easy terms cannot expend it with the economy of private individuals and it results in vast waste. ... The collection of a debt to our Treasury from a foreign government sets afoot propaganda against our officials, against our government. There is no court to which government can appeal for collection of debt except a battleship. The whole process is involved in inflation in waste, and in intrigue. The only direct loans of our government should be humane loans to prevent starvation. The world must stop this orgy of expenditure on armament. European governments must cease to balance their budgets by publishing paper money if exchange is ever to be righted. The world is not alone in need for credit machinery. It is in need of economic statesmanship."

December 1920 Address To the American Bar Association Chicago

With the silver discoveries, the miners and the farmers were complaining about the shortage of gold and they saw the monetization of silver as a way to inflate prices. This led to the massive unsound finance where the US had over-valued silver relative to gold and that led to massive international outflows of gold. Gold flowed to Europe, swapped for silver, the silver taken back to the US where it bought more gold and the arbitrage continued until the US Treasury was stripped of its gold. This is when J.P. Morgan became so famous for he led a consortium of banks together to lend the Treasury gold.

The Silver Democrats lost the famous election of 1896 where William Jennings Bryan gave his famous speech that "Thou Shalt Not Crucify Man upon a cross of gold." This came on the heels of a very severe economic drop in the Panic of 1893. The **Economic Confidence Model** had peaked in 1878.15 ending a **Public Wave** and thus a new **Private Wave** began in 1882.45 marked by high volatility. This is where the interest rates soared and reached the major high of nearly 200% in 1899 (see Call Money Chart).

This was the new age of Private Confidence and the Government began to turn toward Marxism. The Sherman Anti Trust Act came out because they saw corporate mergers as reducing employment. Going into 1899, there was a huge trend of corporate mergers in the railroads. This was followed by the "Rich Man's Panic" of 1903. with a final boom in railroads into 1906 and the Panic of 1907 that would end the age of Transportation Sector.

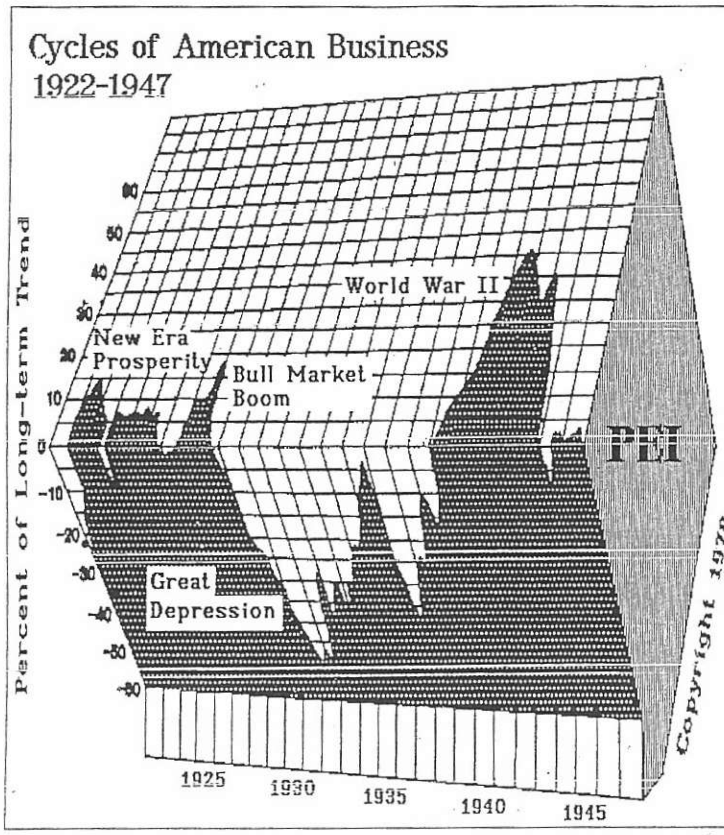
The next capital concentration was the commodity boom into 1919 due to World War I. This Panic was swift and devastating. It was met with a clamor to lend money to Europe. As Herbert Hoover pointed out, government never repays its debt and their is no court to appeal a sovereign bankrupt. The only appeal is to a call to arms. When Herbert Hoover would be elected as President, it came too late. The boom of the '20s came head-to-head with the irresponsible Euro-policies.

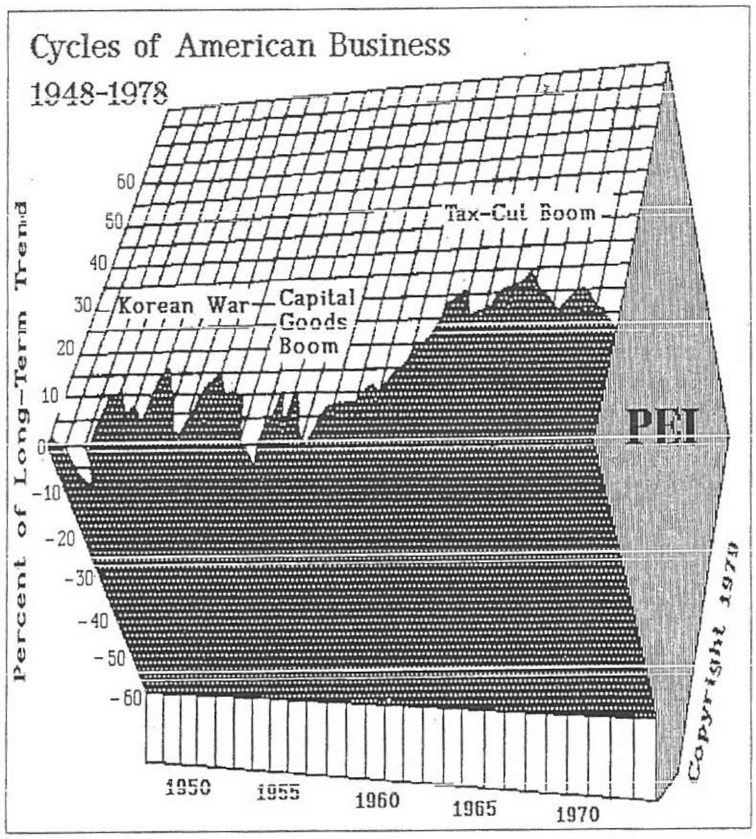
The Roaring '20s was economically known as the "New Era Prosperty." It was entirely driven by innovation and the industrial revolution that became manifest with the invention of cars and the airplane.

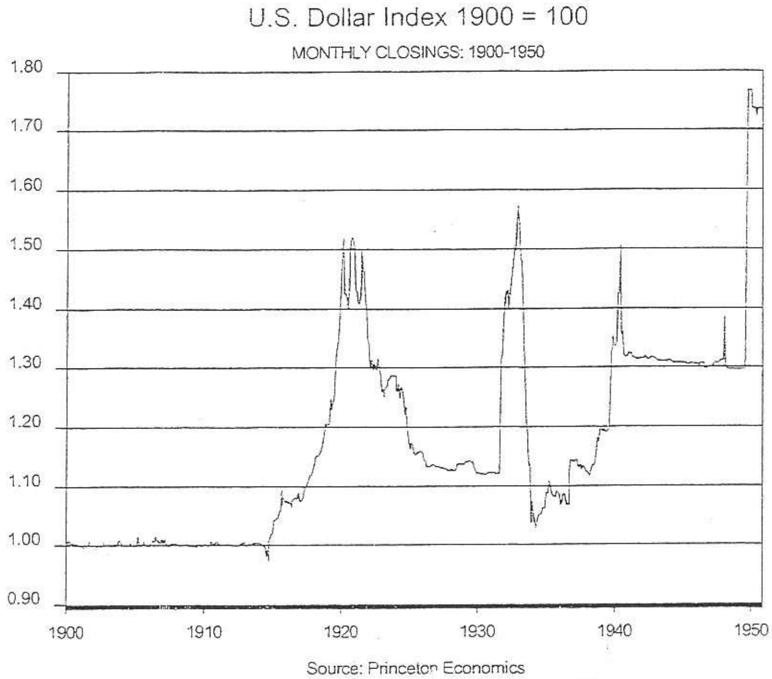
The Automobile gave birth to the suburbs and expanded so many areas of the economy the list was endless. We see small "motel" booms for the car did more than the train. Where the train could move people that is true, their freedom was still limited to the vicinity of the train tracks. The automobile was a true freedom that allowed wider economic expansion and gave birth to a deeper distribution network through trucking.

But the unsound finance and hate within Europe brewed. The rush to re-arm spent capital on military weapons that only set the stage for WW II - the sequel. Yet the hatred brewing in Europe led to a financial war in 1931 with nations attacking the other nation's bonds. This financial war led to the massive defaults in 1931 driving the dollar insanely high. The US failed to understand economically what was taking place and saw the collapse in world currencies only in the eyes of trade. This led to the Smoot Hawley Act and the dawn of new economic dark age. The massive debt defaults hit Americans for foreign bonds were sold to the average person by the investment banks in small denominations. So the European default, had created a loss of savings and that in turn translated into bank runs.

As Europe started to blow each other's brains out, the capital fled to the US once again. This created a age of prosperity that ended with the US having 76% of the world's gold. Yet the US failed to understand economic trends and squandered its wealth waging war even in Korea. There was the Capital Goods Boom with consumer buying and then there was indeed a real Tax-Cut Boom of the '60s that was seen as a permanent tax cut, not a one-off. This was followed by the floating exchange rate system in 1971 and the free-fall of the US dollar on world exchanges. This is a brief overview of the United States Economic trend until OPEC.







We can see that the strongest flight in 1913 was to the British pound. This drove the pound over $5 briefly that year. The swings in the pound below reflect the high degree of volatility that accompanied the 1930s.

The effects of World War I and World War II demonstrate there is no truth to the myth that war is good for the economy. By the end of WW II, the US had 76% of the world gold reserves, which is why it became the **"reserve currency"** at Bretton Woods in 1944.

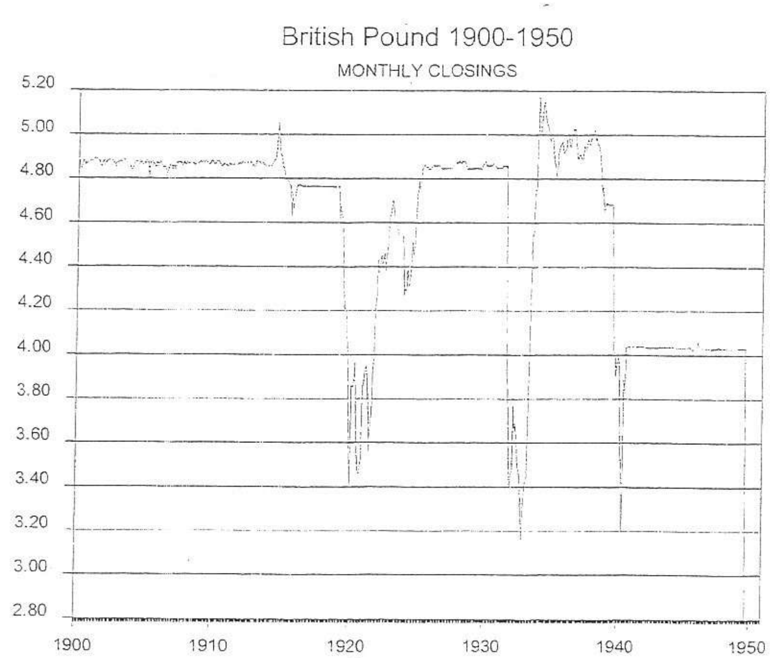
War was certainly <u>not</u> good for Europe. It destroyed just about all economic stability. It benefited the US <u>only</u> because it became the arms dealer and food supplier. That was the only reason the US benefited.

Above,please find a index of the dollar that we created linked to January 1st, 1900 equals par. This index contained all major & minor currencies in a basket so we can see the trends that developed between 1900 and 1950. The major low took place in 1913 just after the Income Tax was ratified in February of that year. The income tax was very unfair and only targeted the rich. Payroll tax did not come into play until World War II.

Whenever the US has initiated war such as in SE Asia and Iraq, it too has undermined the economic viability. War <u>costs</u> lives and money and does <u>not</u> benefit a nation. In the old days, the profit was to enslave the people, sell the women and children, and confiscate all wealth and land. This is why it was at first acceptable to **"buy"** African slaves who were being sold as the spoils of war. It was viewed as unacceptable to enslave the native Indians who were not war spoils.

The introduction of the Marxist policies in the United States in 1913 set in motion a major net capital flight that was directly headed straight to the old world Europe. However, the events that followed with World War I in 1914, reversed the capital outflow to a positive inflow. Europeans were moving capital to America in fear of the war and instability. So what you see is a rally from 1913 straight into a 7 year bull market peaking in 1920. After the war, we can see that the dollar fell as the **"flight to quality"** caused by the war subsided. The next turning point appears in a 5 year decline into 1925. There is consolidation, but thereafter, we see a huge spike high going into 1931 where most of Europe defaulted on its national debts. As nuts as this volatility appeared, it reversed with wind of FDR's intended devaluation by 57%.

There were thus two lows, 1899 when we have the historic high in interest rates and again in 1913. Adding 51.6 years to each gives



Economic Confidence Model

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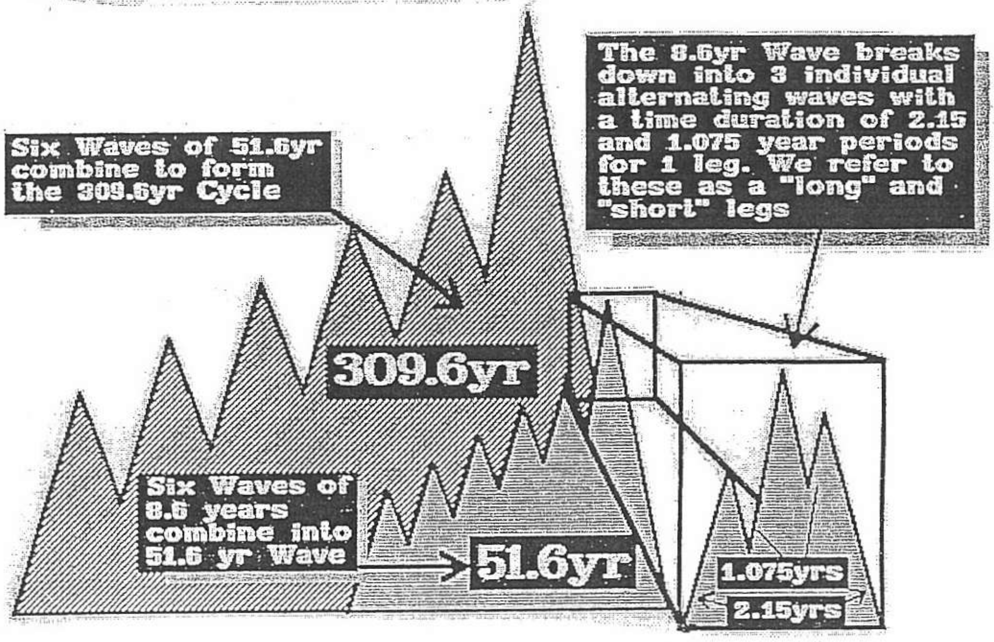


us some very interesting dates. The first 1899 brings bring us into 1950 - 1951 and the 1913 date brings us to 1964. The 1951 date is the major high in the dollar for this also brings us to the unleashing of the Federal Reserve. Most do not understand the history of the Fed. Prior to World War I, it did not buy government bonds, but only corporate paper to stimulate the economy.

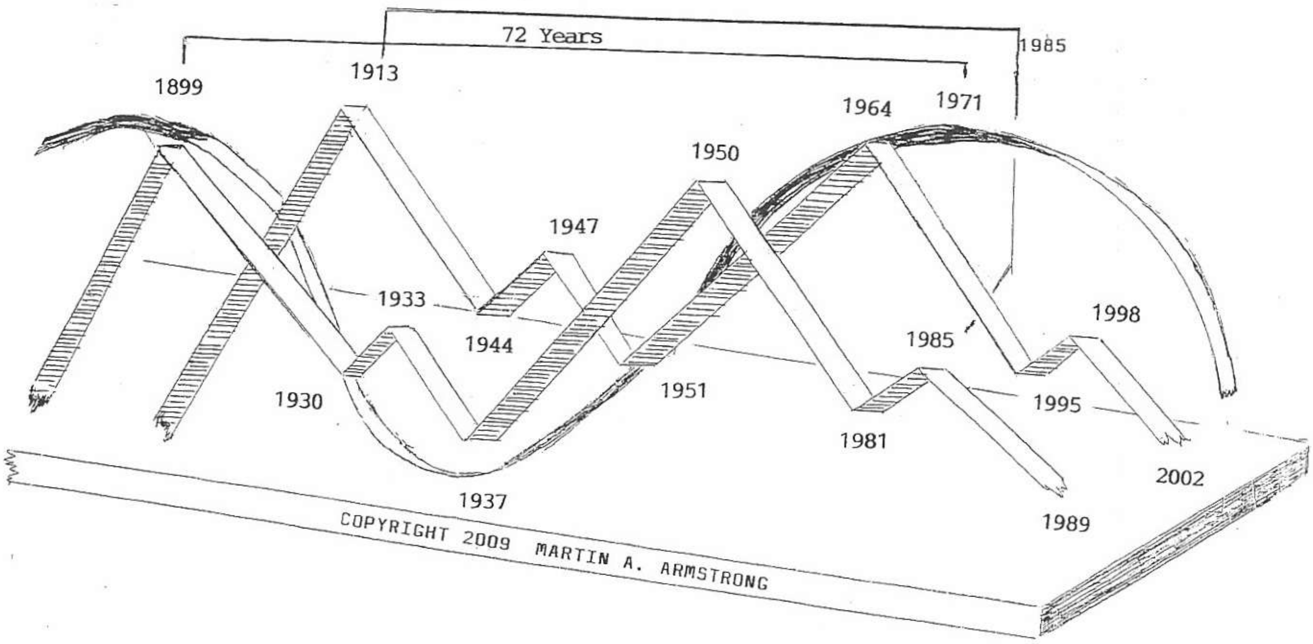
When the prospect of war appeared, it was then ordered that the Fed had to support the government bonds. In fact, through World War II, the Fed was ordered by <u>law</u> to support the government debt at <u>par</u>. That arrangement was then removed in 1950 and what followed was a major decline by 86% in the value of government bonds due to the persistent deficit spending. By 31.4 years later right on the **Pi** frequency, we come to the end of that trend with the peak in US interest rates in 1981.

Because the United States became the modern-day Rome as the center of global capital concentration, its alignment to to the **Economic Confidence Model** became correlated during the 20th Century. However, what we are now going to see, is what happens when a individual economy starts to blend with the **Economic Confidence Model** that is the global frequency. This is what I refer to as the **Correlation of Cyclical Convergence.**

We are now ready to explore how the **Sixth Dimension** really begins to operate. Each and every market as well as an economy, retains its own unique frequencies that are inter-dependent upon the **Comparative Advantage** of each and every market and national economy in terms of the theory of **David Ricardo (1772-1823). Ricardo** saw that certain nations had a comparative advantage. For example, England was the perfect environment to raise sheep. That had led them to become the primary supplier of wool. The Flemish were the weavers, and thus they purchased the raw wool from England and manufactured various garments during the 12th and 13th Centuries. They lacked the land to raise the sheep but had the skilled labor. Likewise, Saudi Arabia could grow lettuce by massive irrigation probably at a cost of $100 per head. It should not waste its national wealth on such a project that can be avoided by buying it from Europe at about 50¢. Yet oil is a natural resource so its economy will line up with the commodity. Europe on the continent lacks oil and will correlate in a reciprocal relationship.

What happens when capital concentrates among nations, it then transforms that single economy compelling it to conform closer to the **Economic Confidence Model.** Thus, what we end up with is a **<u>blending</u>** of influences just as in wave theory two waves out of phase will cancel each other out. When the phase is aligned, we get the giant waves for they will then combine increasing the amplitude. Now you can perhaps understand the necessity of computers. Just as what appeared once to be **chaos** was suddenly exposed to have been just sheer order in a complex structure. It took computers to see the order that the human mind had never been able to see no less touch.

Correlation of Cyclical Convergence In the United States



When we look at the **blending** of the main **Economic Confidence Model** with that of the United States Economy, we can see a very neat and crisp correlation between **1899** and **1913** that are two critical dates in US events. The composite becomes a **blending** of the 8.6 year frequency, **Pi (3.141592654)** and the 72 year volatility frequency based upon the unit of 6.

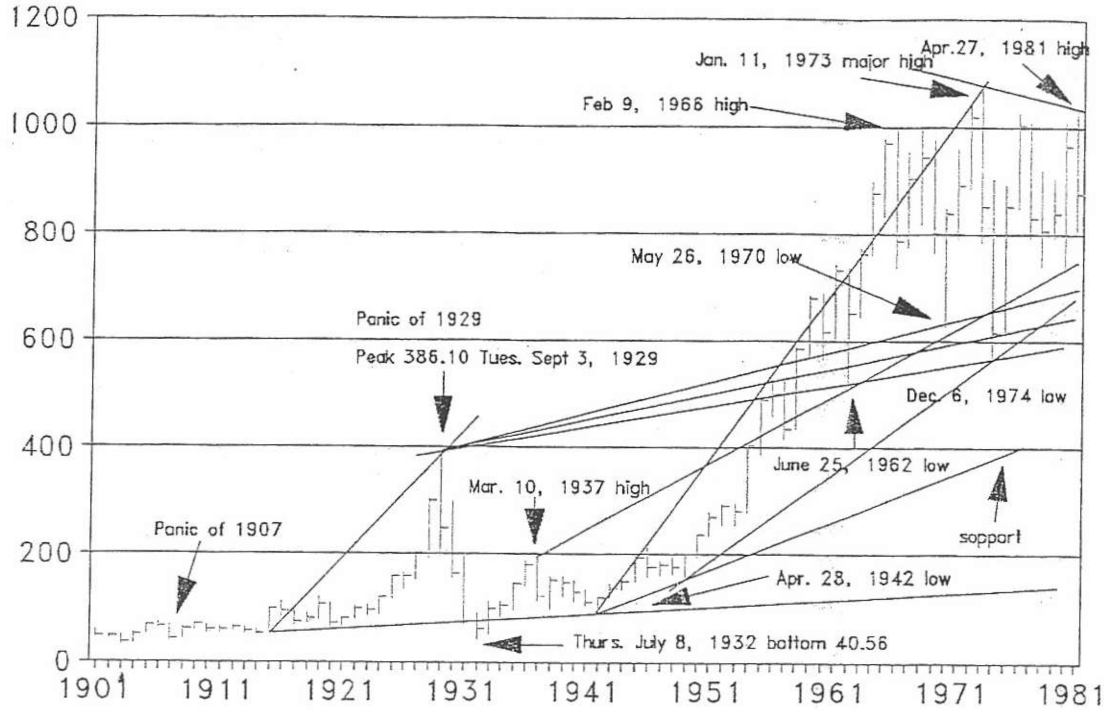
The second series of 1913 brings us to 1964. This was the start of the collapse of the dollar that began a trend toward the decline and fall of the gold standard. It was 1964 that was the last of the silver coinage and the end of the "silver certificates" (Federal Reserve Notes backed by silver).

This turning point of 1964 for the US dollar began an oscillating decline that was truly impressive. It was as if America had its throat slit, and the slow death that was unfolding was almost in slow-motion. If we again add 31.4 years to 1964, we arrive at 1995. This was the major low for the dollar against the Japanese yen. This dollar decline marked the end of the capital concentration for Japan when the yen rose on the cash to about 79 to the dollar (1.2625 = Futures) on April 19th, 1995. Adding **Pi** 3.14 years, we then see a trend from 1995.3 to 1998 with the ideal target of June 10th, 1998 = 1998.44. It was nearly a double bottom for the dollar in June and August that year with the dollar rising to about 147 cash (our Annual Bullish Reversal) or .6807 futures on August 11th, 1998.

If we now take the 1950 high add the 31.4 we come to 1981 with the peak in interest rates post-Depression, followed by the major high in 1985.14 where we find the major dollar high and the formation of the G-5 designed specifically to manipulate the currencies, for in the mind of government, that power would translate into the manaipulation of trade deficits and the ability to effect employment. It was a total and complete failure creating the 1987 Crash by lowering the dollar 40% causing massive foreign liquidation of US assets.

What is happening here is that we have the 51.6 year **Economic Confidence Model** that is still dominant, that is being influenced by **Pi** in intervals of 31.4 years and overlaid with the 72 year volatility model. The 1899 target merges with **Pi** to come close to the **ECM** targets of 1929.75 and 1934.05. We see 1930 and 1933 where the spike drop in the dollar begind. This goes into 1937 (high). The 1913 target leads us to 1944 Bretton Woods but both line up with the ECM for 1989 & 2002.

Dow Jones Industrials
Yearly: 1901–1981

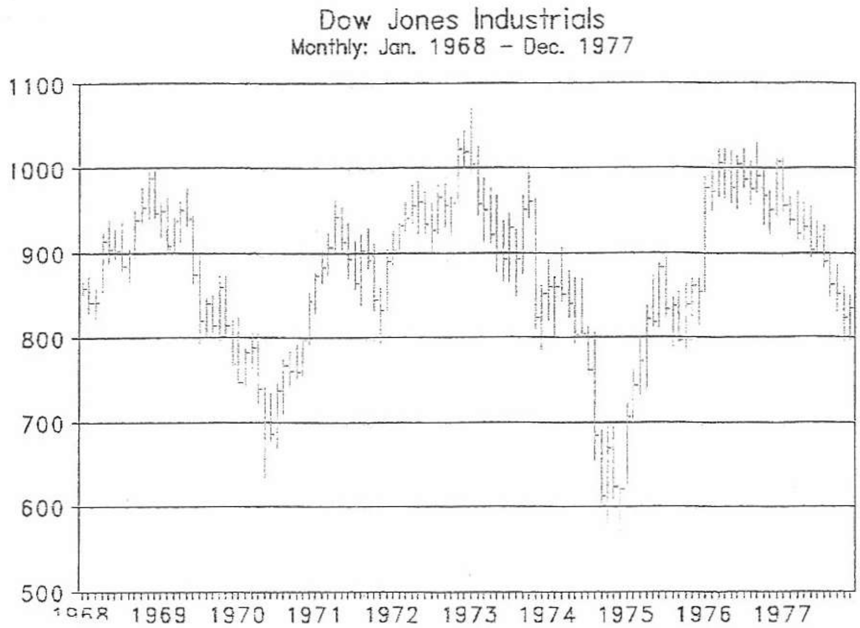


You may wonder what is honestly so significant about the 1950-51 period? Above you will see a chart of the Dow Jones Industrials on an annual basis between 1901 and 1981. When we look at the 1951 period, most see nothing significant. However, keep in mind we are dealing with **cycles** that are in fact **turning points** that are best described not as highs or law, but changes in **trend**.

When we look at the above chart, what we see is a steady rally from the first low post-Great Depression on April 28th, 1942. Yes there is a perfect **Pi** cycle of 31.4 yrs into the the major high on January 11th, 1973. But this is merely the surface. Focus in now on 1951. The rally in 1950 exceeded the 1937 high and closed above it for the first time on an annual basis. 1951 pressed higher and that continued into 1952 with a singleton retest of support in 1953. This was the **turning point** that marked the true breakout. 1951 was the abandonment of the Congressional mandate that the Fed had to support US government debt at par. This is when the free markets were truly restored. The bullshit that stocks rise with lower interest rates was a relationship dreamed up by some lunatic economist. Interest rates began to rise from 1951 and did not reach their peak until 1981 causing a near 86% loss in the value of the 1946 bonds.

Once we see the retest of support in 1953, there was a springboard straight up from there on. The Dow reached a peak in 1961, and pulled back into a minor correction for 1962. Tieing the 1962 low to the 1929 high, established the breakout line of support upon which the major 1974 low was created. As the dollar pressure rose from 1962, we see a Pi cycle into early 1966 as the market peaked on February 9th, 1966. The 1966 collapse was a **Mutual Fund Crash.** The mutual funds were then listed on the exchange and were being sold by insurance brokers everywhere. The prices became reflective of speculation far above book value. The 1966 collapse was so significant, the reform thereafter was the de-listing of mutua funds. Fidelity Trend, one of the best performing funds at the time, fell from about \$50 to about \$5-7. It was a 1929 Crash in mutual funds. The decline thereafter formed the low in 1970 with another Pi cycle into the major high on January 11th, 1973 exceeding the 1,000 level on the Dow.

Throughout this period, interest rates are overall rising. But it is the decline in the dollar that began from 1951, becomes self-evident with the removal of silver in 1964, 1968 begins the two-tier gold market (Private/Public) in London, and in 1971 the floating exchange rate system began.



When we look at the chart below covering the Dow on a plain monthly basis between 1977 and the end of 1985, we can study when the external influence of the 8.615 frequency starts to subside.

The decline from the 1976 high was again 17.2 months into 1978 following the 8.6 frequency (8.6 x 2 = 17.2). Here we see a brief 6 month rally into the end of 1978, with a sideways to lower trend moving into 1980 that again measured 17.2 months.

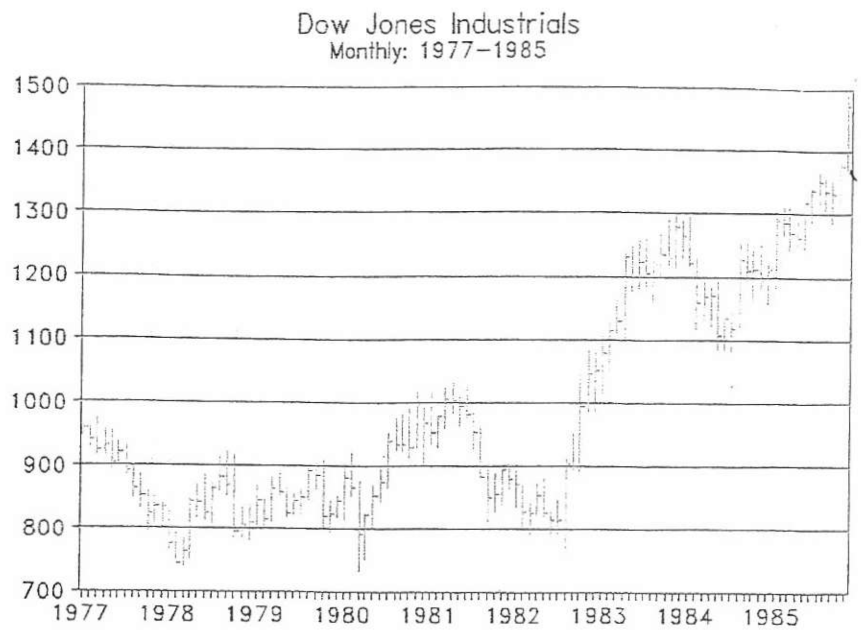
Here is where the external influence dies and the domestic cyclical forces begin to once more dominate altering the core pattern frequency. We then have a 13 month rally into 1981 with a 16 month decline into 1982 that just happens to be a very major **turning point** that set the stage for the resumption of a "real" bull market that up to now had not reappeared post-1929.

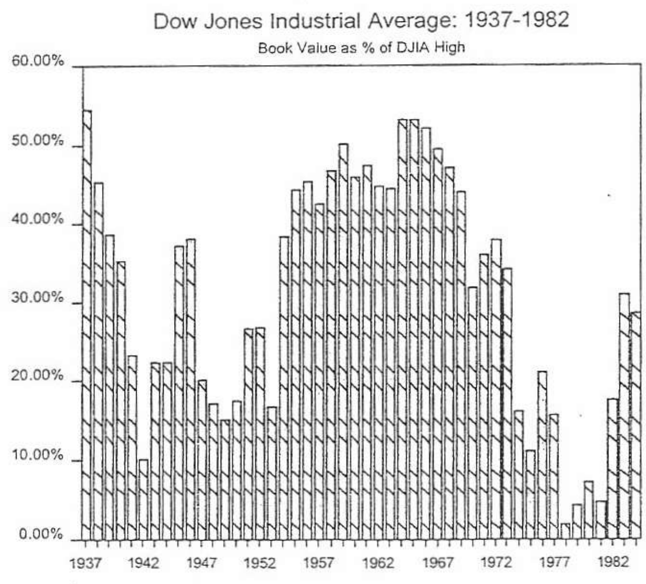
The rise in the Dow between 1932 and 1982, was primarily a hedge against government. The Dow began to rise fearing the inflation policy of FDR who revalued the dollar in 1934 from $20 = 1 ounce of gold to $35. This net 57% decline in the value of the dollar is the only thing that created the Depression low in 1932. The breakout in 1951 with the change in the Fed, sparked the rise relative to the $.

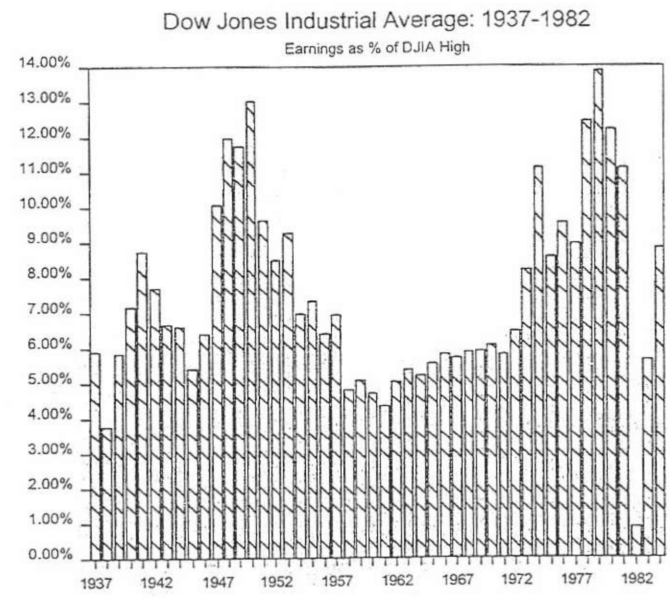
Within this **Sixth Dimension**, everything beats to the drums of its own nature and time relative to everything else in all other nations. There is a dual nature to this very interesting dimension, and that is the interplay between the cyclical forces unique to each market and economy, and the major effect of the **Economic Confidence Model** that creates a individual **cyclical pattern projection.**

Just as we have recently seen a 17.2 month decline in both interest rates (flight to the so called quality of gov't paper) and the US share market creating a low in March just 8.6 days from the ideal target, this external and major influence of the 8.615384615 frequency, appears often from key events and eventually causes the correlation as well as the vital global contagions.

Look at the above chart and what we see is 17.2 months from the 1968 high into the 1970 low. We then see a 31.4 Pi cycle rise into the 1973 high, with a middle frequency of 23 months into the December 1974 low. We then move back to a normal 21 month rally into the 1976 high. We can see the influence between the major 8.6 frequency and its own unique cycles. The 8.6 year frequency will revolve and eventually come in perfect alignment with the **Economic Confidence Model** and that signaled the concentration of global capital.







It may sound strange to say that the rise in the US Share market from 1932 into the early 1982 period was not a real bull market. The empirical price of the Dow Jones Industrials rallied from 40.56 on July 8th, 1932, into the 1,000 zone. However, this is where the conflict between **Public** and the **Private Confidence** comes into play.

If the government were to devalue the dollar tomorrow by 50%, and you then sold your house for 80% more that what you just paid for it 2 weeks before the devaluation, did you really make money? The answer is NO!

This is the same situation. The bonds fell by 86% in value from the 1951 period to 1981. What we are looking at is the reciprocal where stocks represent the clear opposite of confidence in government. After the 1929 crash, we entered into a **Public Wave** that peaked in 1981.35. This is why the stocks rallied overall more so as a hedge against the decline in the dollar. There were periods of capital concentration in stocks creating bull markets. But we cannot look at just the index to see the complexity. When we correlate this to numerous aspects within the economy, we begin to see that something else is going on as well. This is the eternal battle of **Public v Private** that has been in fact noticed by many since even the days of **Plato.** This is a significant factor for it defines how all things act depending upon where the **Confidence** resides at that moment in time.

A **Private Wave** government turns against it own people and they are marked by sheer nasty police state mentality that dominates everything. We can see that when people trust government, stocks lagged in value and bonds lead.

We can see that the left chart illustrates the book value of the companies as a % of the high for that year. We can see the major low is actually 1976. When we look at the earnings as a % of the high of the Dow, the low is 1982.

The Dow Jones Industrials did outpace the decline in the dollar from 1946 as reflected in the value of bonds with the 86% drop by the peak in the **Economic Confidence Model** for the **Public Wave** 1981.35. Because the US was the center of global capital concentration, it began aligned with the model in the 20th Cent. This rise in the Dow from 1932 (40.56) up to 1,000, an 86% drop would have been to 140. So the Dow did outperform bonds in real tangible protection of capital.

Gold was $20 in 1932 and reached $875 in 1980 that was a 4375% advance compared to the Dow's 2500% advance. Nevertheless, both on a long-term basis outperformed bonds and rose even with the overall advance in interest rates throughout this period. Still, the Dow did lag behind during this **Public Wave**, but has since made up for lost time. Still, at 14,000, the advance for the Dow since 1932 stands at 35000%. The same advance for gold would now be $7,000. The value of anything is truly the reciprocal of the value of the dollar.

Thrasymachus

"[T]he different forms of government make laws democratical, aristocratical, tyrannical, with a view to their several interests; and these laws, which are made by them for their own interests, are the justice which they deliver to their subjects, and him who transgresses them they punish as a breaker of the law, and unjust. And that is what I mean when I say that in all states there is the same principle of justice, which is the interest of the government; and as the government must be supposed to have power, the only reasonable conclusion is, that everywhere there is one principle of justice, which is the interest of the stronger."

Plato's "Republic", Anchor Books, 1973 ed, p22

There were a few truly great men who understood that it was the **Rule of Law** that secured all wealth and truly restrained government against committing suicide as it just always does. There was **Lord Camden** who was removed from the bench by the King. There was **Lord Coke** who was also removed. Then there were the the immortal words of **Lord Mansfield** who said:

"Let justice be done though the havens fall."

Rex v Wikes, 4 Burrow's Reports 2527, 2562 (1768)

But it is unfortunate for such moments in time are far too brief. The inherent corruption of the state consumes everything, and that is why what we are looking at on the horizon, is a meltdown of the **Public Confidence** that will topple the greatest plans of men and tyrants.

I am certainly not the first to notice that there is a continual battle between the self-interests of government and those of the people. Above is a quote **Plato** gives in a debate between **Socrates** and **Thrasymachus. Socrates** wrongly believed that the invention of a democracy would always gravitate toward true justice because it was controlled by the people. **Thrasymachus** argued it mattered not the form of government for they always seek only their own self-interest at the cruel expense of the people. Unfortunately, **Socrates** paid the price of his belief in democracy with his life.

The form of government matters not at all for they will always circumvent whatever restraints exist to win at all costs. It is often overlooked, but even Adolf Hitler did not win by the majority vote of the people. Once government assumes power, it will move to suppress the rights of the people to just further its own economic ends. This is why perhaps cycles also exist in politics for we do not have a chance of avoiding the very turmoil of the future, for it will require as Hoover pointed out in 1920, an **Economic Statesman.** There is no one on the horizon to save us. Government will never admit it is part of the problem, for they rely on the pretense of being the solution. We are our own worst enemy and there is no hope of avoiding the debt implosion. What we must be concerned about is Hoover was correct. There is no court of appeals between the nations to enforce economic sanity. There is only a resort to force of arms.

By 1932, the noble principles of justice gave way to Marxism in the United States and this became reflected in the legal decisions being handed down. In an important book of the time, it was noted the decline in the **Rule of Law.**

"It is not the technical legal conception that leads to the decisions pronounced by the judge, but it is the decision which the judge intends to pronounce which lead him to the finding of the technical reasons. Therefor the decisions themselves being the result of the judge's views on the social and economic questions involved in the solution of the apparently abstract constitutional problems."

Louis B. Boudin, Government by Judiciary

Volume I, p338 (1932)

Even **Sir William Blackstone** whose work entitled the **Commentaries on the Laws of England** that were used by the Founders of this United States intended to be the cornerstone of the **Rule of Law,** wrote: "For if judgments were to be the private opinions of the judge, men would then be slaves to their magistrates; and would live in society, without knowing exactly the conditions and obligations which it lays them under." **4 Blackstone, p371.**

"It has long ... been my opinion ... that the germ of dissolution of our Federal government is in the constitution of the federal judiciary; an irresponsible body, (for impeachment is scarcely a scarecrow,) working like gravity by night and by day, gaining a little today and a little tomorrow, and advancing its noiseless step like a thief, over the field of jurisdiction, until all shall be usurped from the States, and the government of all be consolidated into one."

The Writings of Thomas Jefferson, Chp XV, p331-32

Thomas Jefferson saw the Judiciary as no doubt the most dangerous of all the branches. He was not wrong, for it matters not what the Congress passes, if the courts refuse to even follow it, there is **no** appeal to Congress to compel the Judiciary to obey the law. They have anointed themselves with **absolute immunity** from any ability to even sue them in a court unlike any one else including senators, congressmen, or the President. They are above all law and rule for life like a king.

When the **Rule of Law** rests within the ruthless hands of such an organization, we are doomed. We are all no more than slaves as **Blackstone** correctly warned would be the result. There is not even a committee in the Senate or the House that oversees them and demands accountability.

This becomes the long entrenched battle between **Public** and **Private Confidence** that leads to war and revolution when there is no longer a **Rule of Law.** Hoover was correct, for as **Adam Smith** pointed out in his **Wealth of Nation (1776)** that no government has ever paid off its debt. It borrows constantly, and always defaults. I am far from the one who has observed this oscillation alone. Even in the **New Testament** at **Luke 18** you will find the parable of the corrupt judge who refuses to give the judgment of the law. Even Christ himself regarded this a corruption. **Jefferson** himself warned that no man can be trusted if he is protected from all accountability.

In recent years, a study was prepared where the question asked was **What made one nation rich and another poor?** It was found after reviewing 72 nations, that the number one cornerstone of national wealth is the **Rule of Law.** This study was prepared by William Easterly of the **Institute for International Economics** and Ross Levine of the **University of Minnesota.** If **"confidence"** in government does not exist, it matters not if there is a trillion dollars of gold in the rock. No one will mine it if they fear that there are no property rights.

Jefferson was correct. The most ruthless, dishonest, and dangerous segment in our government is the unaccountable judiciary. Everything lies in their hands from the property values to the national wealth itself. Stacking the courts as Bush did with former prosecutors has been the single greatest threat to the long-term stability of our economy than anyone has yet realized. When the **Rule of Law** becomes the self-interest of the state as **Thrasymachus** made clear, no one is safe. Your future is destroyed for not even your savings are secure. Bonds have no value because they are enforced only by a resort to the **Rule of Law.** When a federal judge does not have any checks or balance, they the very purpose of the **Rule of Law** is defeated.

This is the true danger we face and it was **Jefferson** who correctly identified that the downfall of the United States will come from the Judiciary - the one branch that has no accountability. Just write to any senator about a judge and the reply you get is the boiler-plate standard - we do not interfere with the Judiciary. They answer to no one. The **Rule of Law** is only the personal views of the judge and when they were former prosecutors, forget it. They pretty much goose-step to the bench and fall to their kneew to kiss the ground the prosecutors walk on. If you think you 401K has "real" value, it will depend during a default if the institution it resides with has greater influence and the **Rule of Law** will bend as it did in the GM bankruptcy case.

In the aftermath of the 1987 Crash, the press was filled with full page adds from

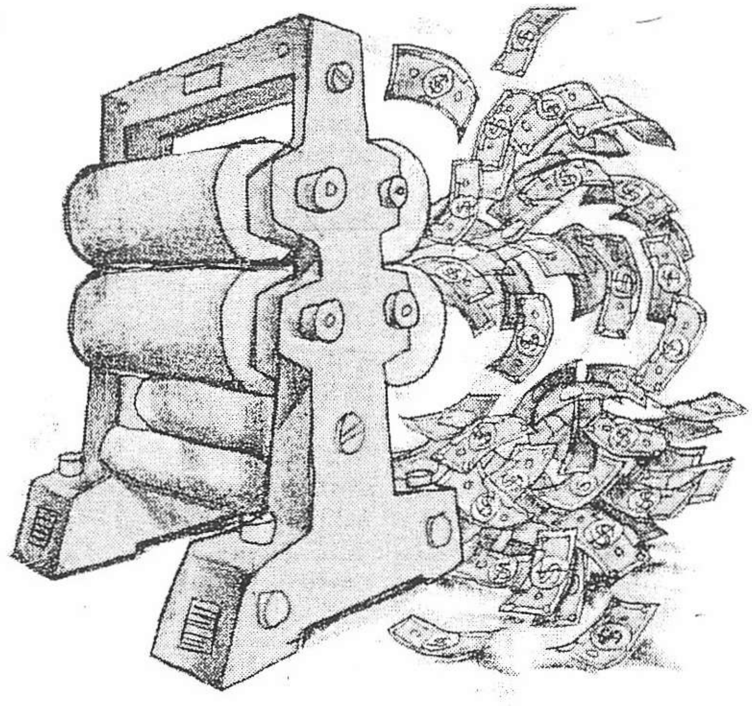
Merrill Lynch pronouncing they were "bullish on bonds" showing the table of their analysts posing for the shoot. One was a friend whom I respected and then called. I asked him what was going on that the bonds looked terrible and the law would hold. He did not disagree with me, but relayed the info that the new forecast was dictated by the lawyers, not the analysts.

I was told that if Merrill Lynch advised their clients to buy US gov't bonds and the investor lost money, they could never be sued for what judge would rule against them when their defense would be they trusted the US government? However, if they said buy IBM and the stock fell 70%, they were the professionals and should have known.

Whenever the **Rule of Law** gives way, the collapse of the state is not far behind. All excess capital begins to flee and investment that creates new jobs diminishes. It becomes a self-defeating downward spiral from which there is no escape and in the end everything simple goes into default. This appears to be the road we have chosen for politicians will not be **Economic Statesmen** choosing instead to do what they need only to win the next election. It is like the Health Care crisis. This will wipe out all pensions, and rather that work together to try to stop this real economic threat, the Republicans will only try to defeat it for they see this as the key to winning re-election. Let the future be damned.

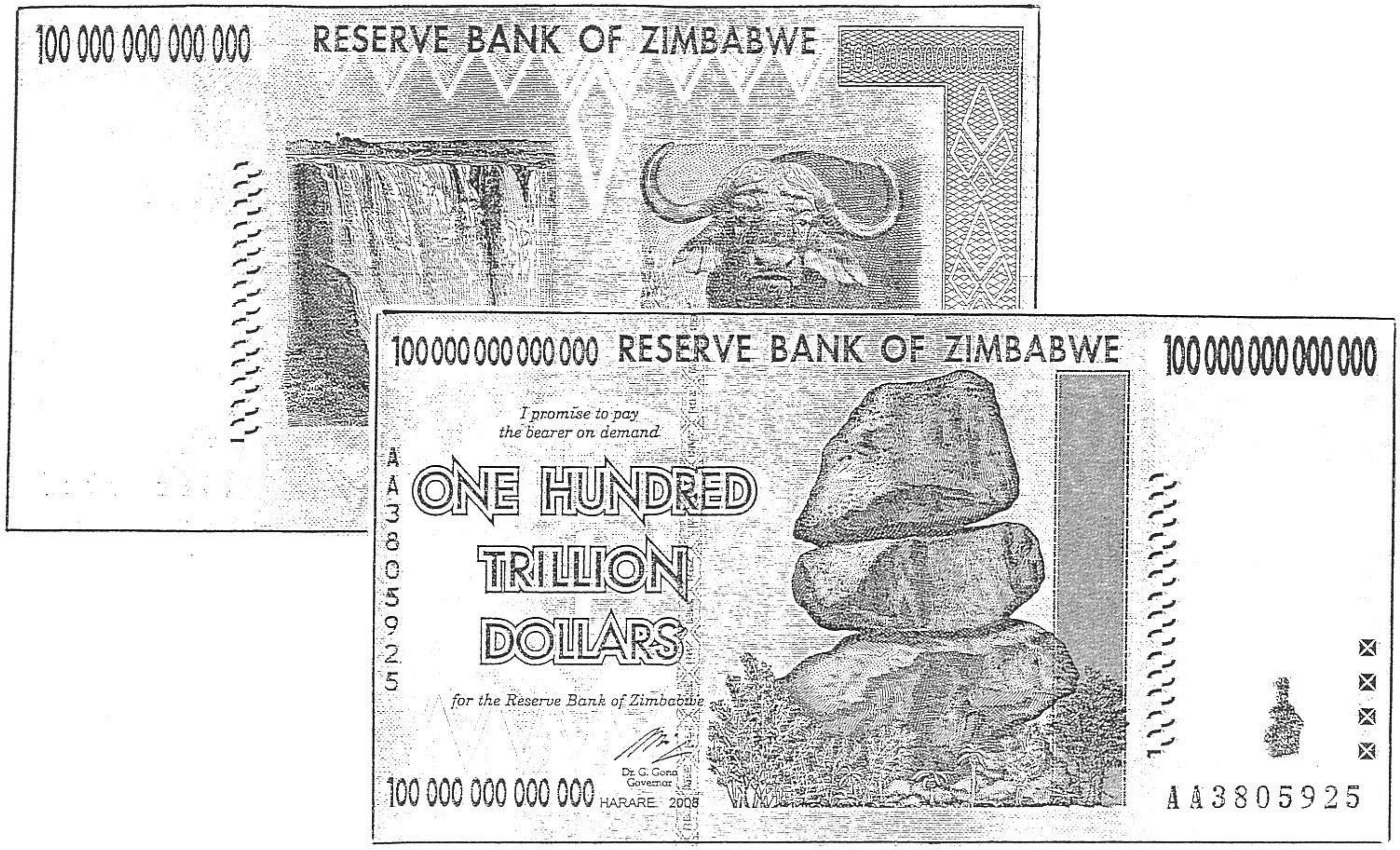
The Halo Effect

The **Halo Effect** is fading. For decades, the United States was respected and admired. Cheny's **neoconservative** policies have been no different from the judges he helped fill the courts like John Adams did for the old Federalist party. His attitude was the same. You either agreed with him, or "fuck off" as he was famous behind closed doors for saying. America lost the "loving feeling" as the song went. America lost its **"Halo"** and the world began to see her for what she became. A spendthrift who was exporting the inflation no different than Rome in its last throes during the 3rd Century. Once **Marx** influenced the Progressives, it was



there and then decided. The future of the United States was doomed. The direct taxes altered everything. Liberty was destroyed for now the state was entitled to know if you found a dime in a parking lot. Indirect taxes requires no personal intrusion nor is there this issue of illegal aliens for in indirect tax systems, it matter not who you are, everybody present pays the same. It is the direct taxes that distinguishes between citizens and visitors. People who never have traveled have no idea of what they argue. In 1985, I was living in London for we had our European Office there. My mother fell and was injured. They took her to the hospital and tended to her needs. There was no hostile attitude because she was American. I had a friend who was in London on vacation and he had a heart attack. They tended to him and gave him a pacemaker all free. They did not left him die because he was an alien!

Government has promised the moon, and can no more keep their promise that Santa really eats the cookies. When there is no one who buys the US debt, that is when the ceiling will fall. We will see this most likely after 2010 and it appears the end may be 2015-2016. A 21 year bull market in stocks points to 2015 and a 17.2 year high in gold points to 2016. This does not negate the decline after Labor Day back into 2010 that seems to be shaping up.

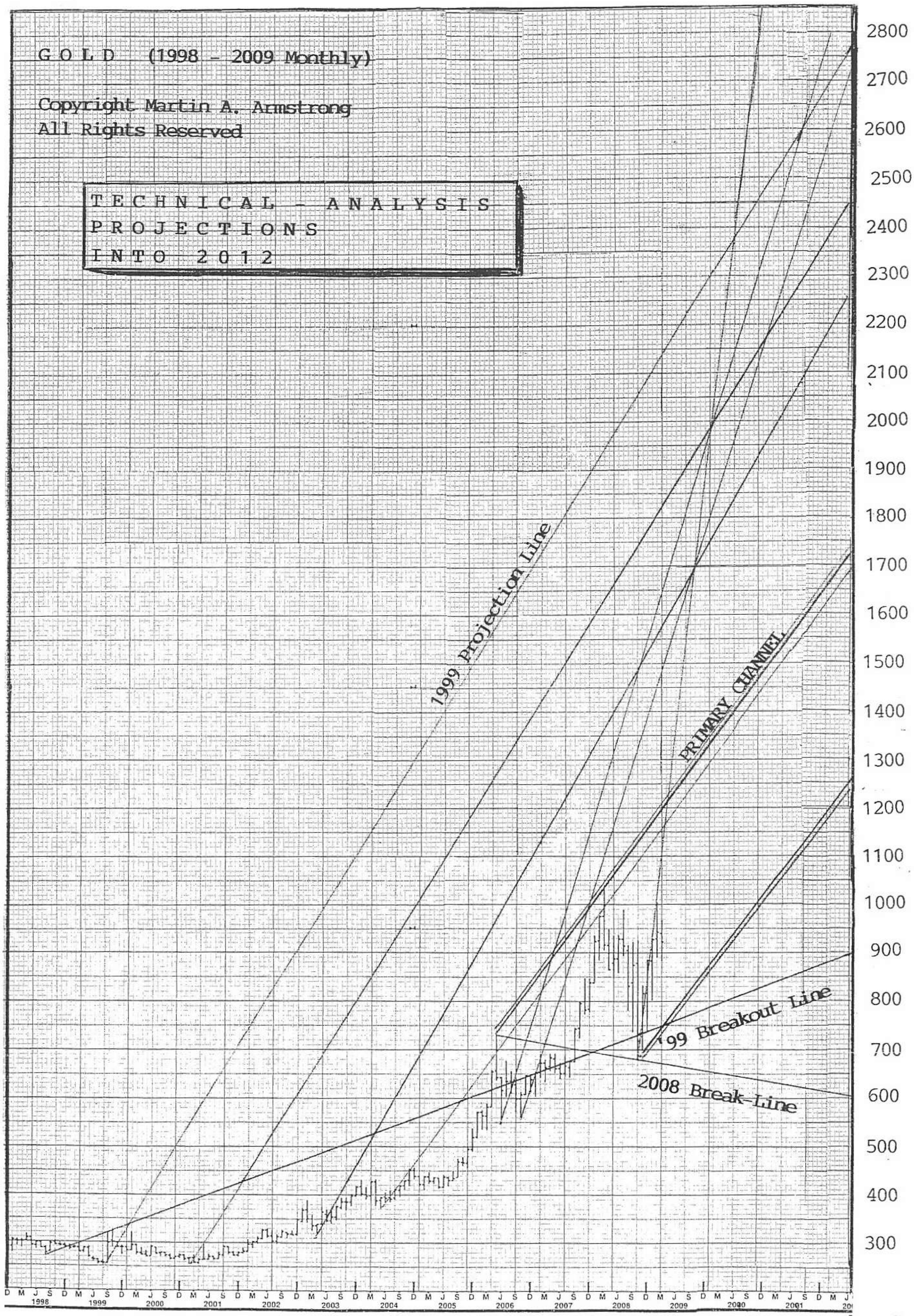


GOLD is a vital indicator of the future. It is **not** a indicator of steady progressive inflation from year to year. It is only the true indicator of the **Confidence** in government. The whole thing about fiat currency is largely misunderstood. Paper currency is by itself not a threat to the economy when it is consider in its true nature, a form of floating share in the United States of the nation issuing it. When there is no **Rule of Law**, then it matters not how much gold a nation has or its natural resources for they are of no value if contracts are not honored. One reader from Latvia sent the above note from Zimbabwe - **One Hundred Trillion Dollars.** While I do not foresee that result for the United States, I do see we are headed toward the final death throes of a debt crisis that the government will attack the private sector and the people rather than ever admitting they have caused the **Decline and Fall of American** if not the entire **Western Civilization..** I would have hoped we have consulted history and been smarter than this. But that is my silly wish where **Hope triumphs over Experience.**

I have provided the technical analysis on **Gold** based on a monthly chart. The first real resistance is formed by the **Primary Channel** that shows $1,350 - $1,750 between 2010 and 2012. This represents still a plain old normal technical move with nothing that would reflect a meltdown. It is breaking this overhead resistance where it becomes support that we enter the "danger zone" of a true meltdown in **Public Confidence.**

Most of the projected resistance from the major low back in 1999, shows various targets from $1,700 to $2,750. However, if gold exceeds this level and it too forms the subsequent support, now we are looking at the $3,500 to $5,000 target zone. This is where we see the potential for **Gold** is a true economic meltdown of **Confidence.**

In the next leg down into 2011, we will see the states start to swing into real and profound economic chaos. They cannot meet their promised pensions to workers and the health care costs are rising. They will now turn to local property taxes that are rising empirically, but when property values dropped, the taxes did not. So the effective tax rate has already risen as a percent of total household income. This will have a broader impact upon real estate causing it to lag behind in the so called inflation boom.


G O L D (1998 - 2009 Monthly)
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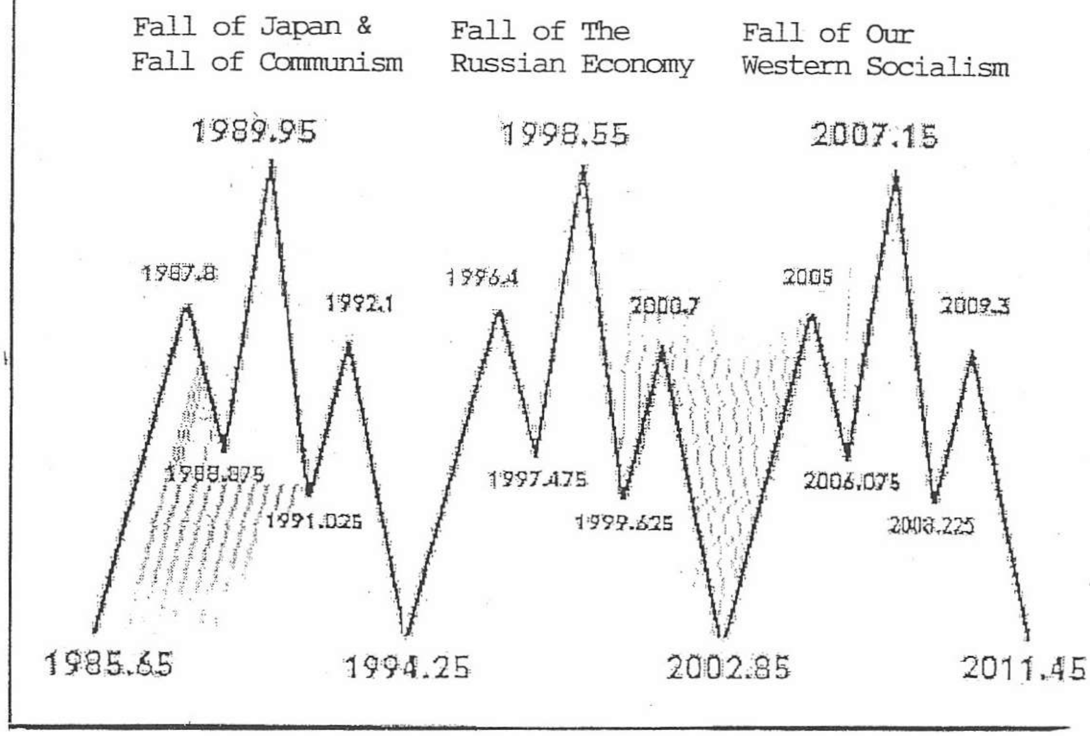
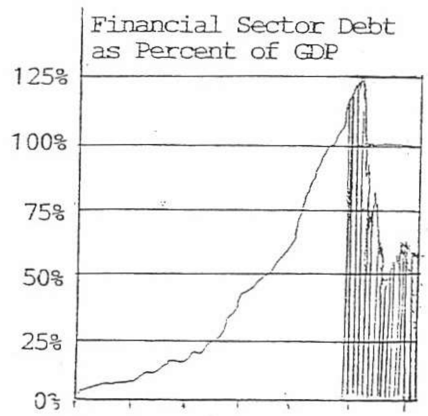
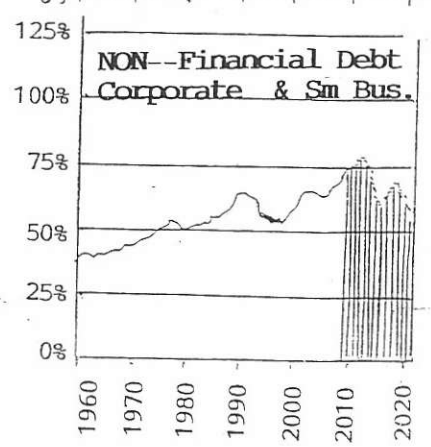
When we look at the effects that have taken place with each turn of the **Economic Confidence Model**, we can see there is truly a major collapse underway in **Marxism**, that has been perhaps the most destructive theory in all history going right back to **Maximianus** I of Rome who destroyed the entire economy by confiscating all wealth in the 3rd Century.



The **2007.15 Turning Point** marked the beginning of the fall of these ideas that led to the unsound finance in the 20th Century. The ideas of **Marx** that justified **Communism** cost so many lives and proved futile for Russia and China. Nevertheless, those who will never listen and **covet their neighbor's goods**, will die for their belief and their vain jealousy. Unfortunately, they cannot understand that it is the **concentration of capital** that is the very essence of economic interaction be it among individuals, sectors, nations, or regions, and in the world of **Star Trek**, it would be no doubt even be among planets. That is just the way it works. It is **not** the "greed" that is portrayed as **Capitalism**, it is far better explained as **Individualism** for the freedom to do what you please, to pursue your desire to be something, is what we all call in our heart - **"Liberty"** that is forfeited under **Marxism.**





This cycle saw the culmination of a **Sectorial Concentration of Capital** within the US Financial sector. This is why the main problem has been the banking sector for it also is the core of a debt problem. Our problem throughout the economy, is far too much debt that in reality, cannot really be paid.

This is the true essence of **Confidence** and debt was once outlawed as "usury" explained by Saint Thomas Aquinas (1225-1274) who wrote one of the early economic philosophies post-Dark Age in his **Suma Theologica.** The Arabs also held earning interest was sinful.

Banking was a Jewish trade in the Dark Ages. Christains took it over during the Protestant Reformation which is why they draw the line there for the birth of **Capitalism.** However, there were usury laws that prevented excessive rates of interest. Yet these were lifted by Paul Volker in order for him to raise rates to 17%+ into 1981 to fight inflation. They were never put back to their historical levels. Precisely 26 years later, we have the **Bubble Top** in 2007 within the banking sector and a massive debt crisis from which we are now trapped.

When we look at the 1913 Wave formation on page 7, the next target will be 2015-2016. The 72 year wave from 1899 produced the birth of the **Floating Exchange Rate System** in 1971. The next turn was 2009. Things should get more interesting from here on.