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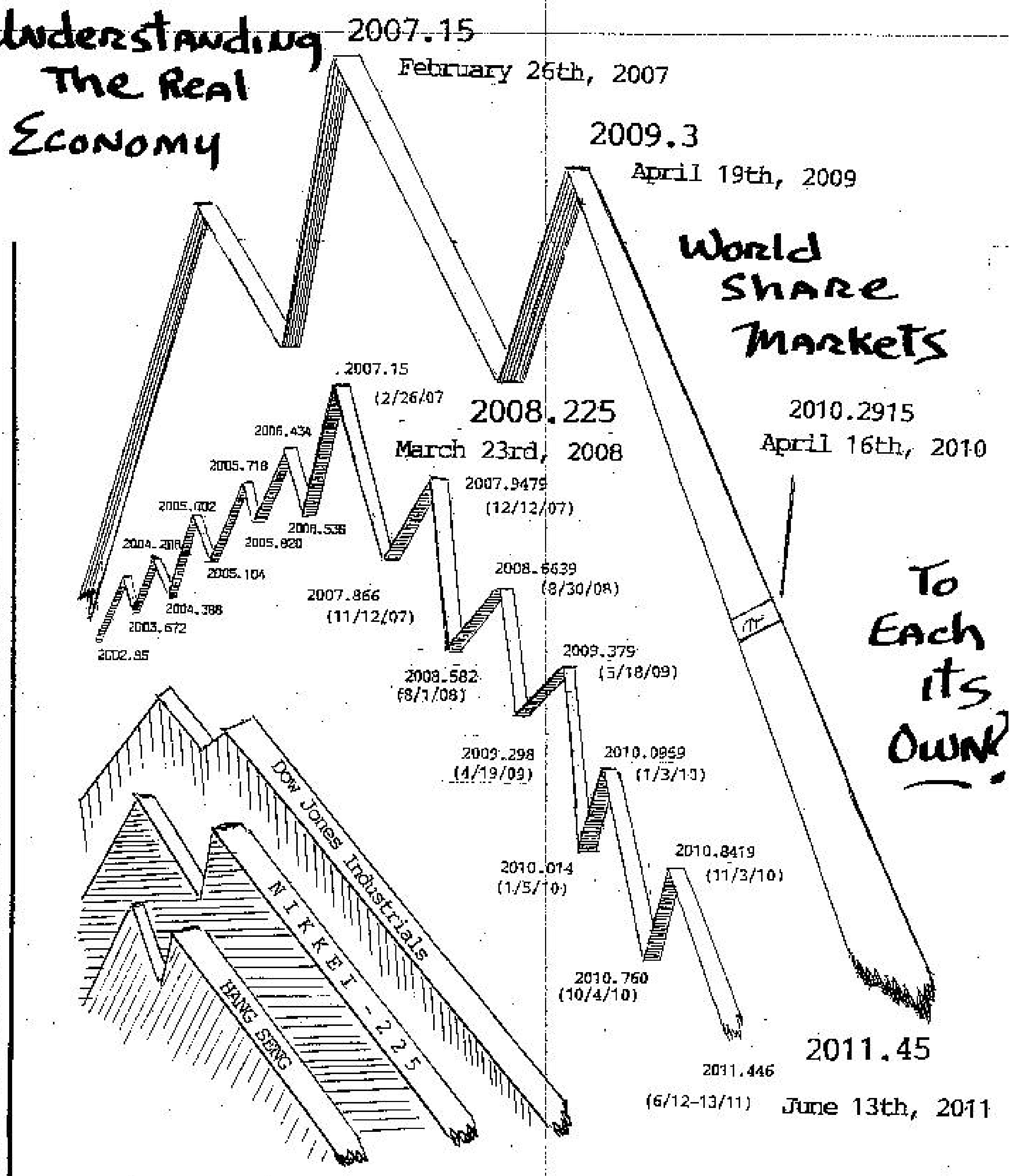

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 May 15th, 2009

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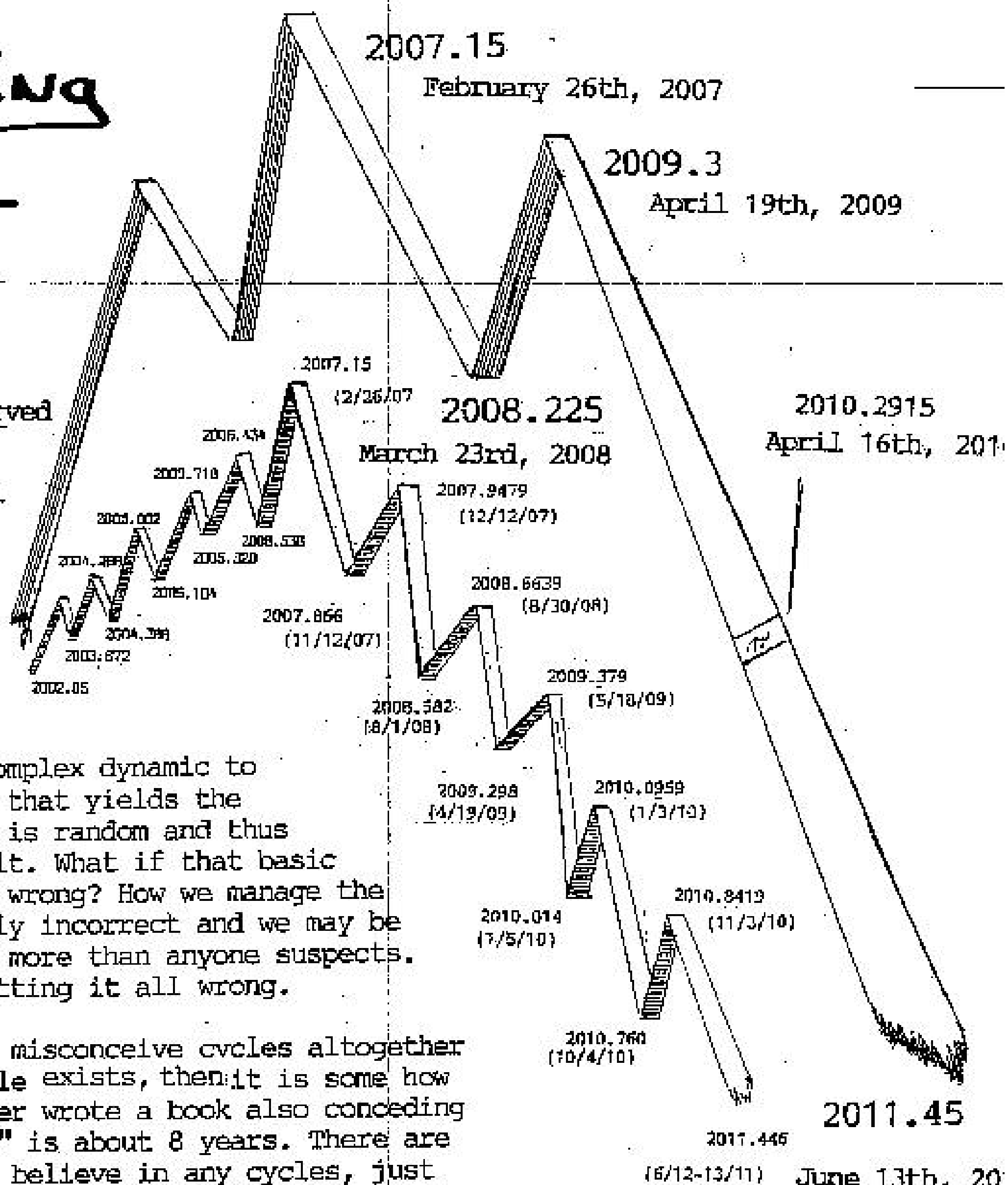
This Report may be forwarded as you like without charge. It is provided as a Public Service at this time without cost. The contents and designs of systems are in fact copyrighted. At a future date, a book will be released **The Geometry of Time**. The charts are often reproductions of an earlier publication 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.

Understanding the Real Economy



By: Martin A. Armstrong
May 15th, 2009

Former Chairman of
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There is always a complex dynamic to how the economy unfolds that yields the false impression that it is random and thus politicians can control it. What if that basic assumption is just plain wrong? How we manage the economy is then completely incorrect and we may be screwing things up a lot more than anyone suspects. The danger we face is getting it all wrong.

There are those who misconceive cycles altogether and assume that if a cycle exists, then it is some how predetermined. Paul Volker wrote a book also conceding that the "Business Cycle" is about 8 years. There are those who will refuse to believe in any cycles, just because. That is what makes cycles exist. As long as there are two sides to a coin, there will always be the tug or war pulling on the economic rope that governs the economy.

The **Economic Confidence Model** that I discovered back in the 1970s, was not based on any particular market or economy. It was devised by taking a list of world panics in the economy irrespective of where they began, ultilizing a list of 26 events between 1683 and 1907. It was by dividing 26 into the 224 year time period that produced the basic frequency of 8.615384615. Like Adam Smith, I set out upon a course of observation to try to understand what made a cycle even exist. Through the course of my studies of the past and observations of the present, I came to realize that the observations uncovered a rich and dynamic structure of interactivity between mankind himself, as well as nature from weather to earthquakes. In short, what scientists were just then discovering with the aid of computers that could do millions of calculations impossible by hand, that the image of chaos has been completely altered. What may appear to be chaos, is in reality, only complex interaction that can be observed by only pealing back layers upon layers like an onion.

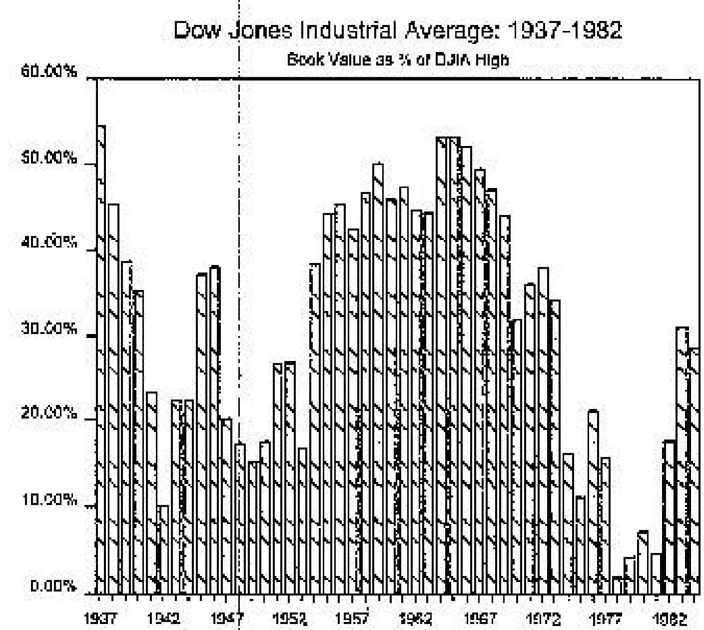
When I was going to school, the economics professor told you everything was random and then the physics professor explained nothing was random but was governed by laws. Clearly, something was begging to be discovered that was lying hidden beneath the surface in the world of economics.

Many are aware that the Economic Confidence Model tracks what might be called the "hot" money, not a specific market or national economy. This phenomenon is caused by capital concentration - the very thing Karl Marx hated, and the very thing that our modern politicians keep trying to stop. They might as well pass a law that forbids it to rain as well so we always have a nice and sunny day. While they are at it, they should also pass a law so that the Earth stops its cycle around the sun and remains at the perfect location so it is not too hot and not too cold.

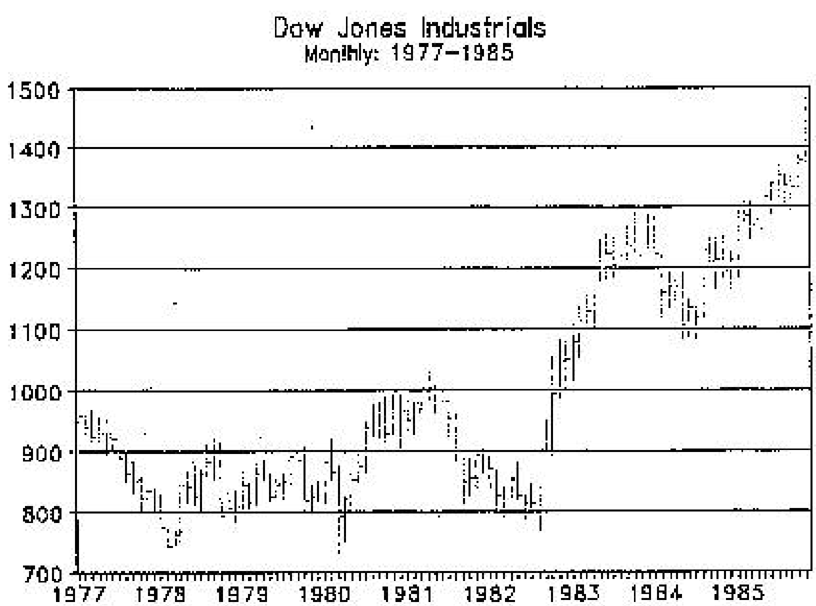
It is the Capital Concentration that takes place (1) among individuals, (2) among sectors, and (3) among nations, retaining within each nation, the tendency for capital to concentrate among individuals and sectors.

During the early-to-mid 1980s, I was giving lectures around the globe from Asia to Europe. The Dow Jones Industrials were trading in the 1,000 range. I was showing the stark realization of how after a 51.6 year Public Confidence Wave that peaked in 1981.35, what that really meant in terms of practical forecasting

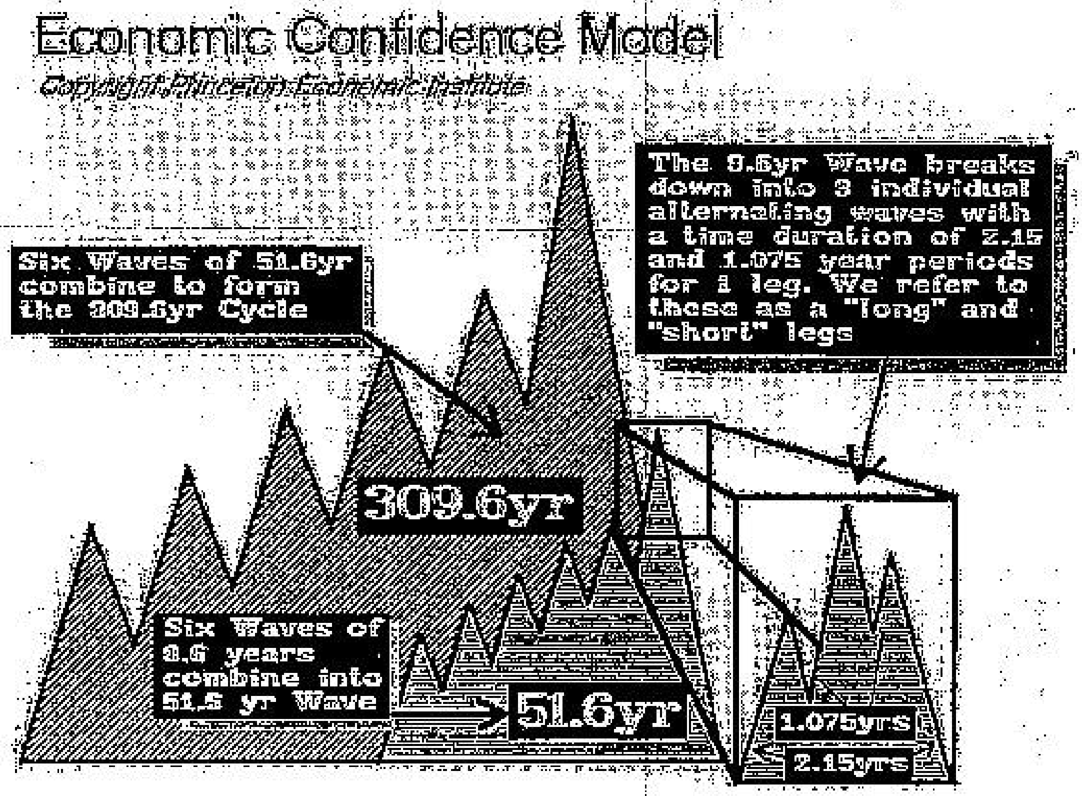
The chart that I was using to illustrate the transition in the investment strategy between a public and a private wave, is here presented to the right. This is the Dow Jones Industrials between 1937-1982 showing the Book Value as a Percent of the DJIA High. This chart was published in the 1986 edition of the Greatest Bull Market in History, so this is not hindsight analysis.



The model was projecting that the Dow Jones Industrials would rise to 6,000. In those days when it was hard to get a sustainable rally above 1,000, no doubt it made the news. Even the Nekkei Kasahi Shinbun (Japan's leading financial newspaper) reported our forecast that seemed nuts to many.



The point being made was that after 51.6 years of a Public Wave of confidence, stocks became grossly undervalued. Because I advised some of those who became take-over buyers after 1985, some accused me of being the architect of the "Take-Over Boom" that with any trend, they seem to have to blame someone. What the model simply did was illustrate the start of a complete shift in confidence that would lead to a renaissance of Private Confidence creating a whole new era of dynamic investment. It would have taken place even if I had never opened my mouth.



By Martin A. Armstrong

The onion is indeed complex. We need to construct this in our mind's-eye in the proper form and then we should be able to suddenly see like Neo in the Matrix, the layers of code that lie hidden behind the image. It is true that some say we cannot see the forest for the trees. It is true that we can be so focused on a minute detail that we cannot see the whole picture.

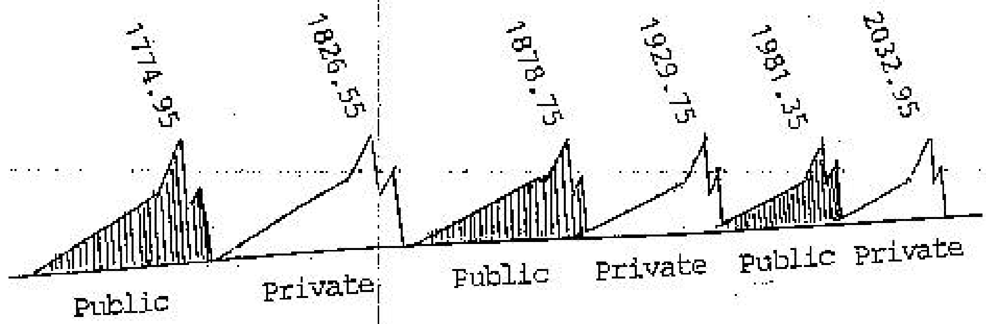
When we take a walk, we cannot see that the Earth is a globe. We have the sense that it is mostly flat, aside from the contours of hills and valleys. Western culture I believe provides a very narrow form of education that limits our ability to truly innovate and expand in knowledge. The book style learning often becomes man's best way of perpetuating his mistakes forever.

Western culture wants to reduce everything to a linear equation that results in black and white answers. We want to blame everything on one person, one sector, and often one reason. We ignore the interconnectivity and dynamic structure of life that offers so much more if we would just embrace it.

Sometimes we need to observe things at the minute level such as in quantum mechanics. But that does not mean we also ignore the life-size world or the grand world of the universe. We need to understand what is taking place on all levels of activity and there are times that the countless variables that are taking place between so many individuals, between so many different markets, and then so many different national agendas, that the effects combined produce a lessor complex nature as we move up in time layers.

For example, there is a 8.6 day, week, month, quarter, year, decade, century, and even a millennium layer of time. There are derivatives of time that create different effects still grouped in 8.6 intervals. However, the most significant seems to take place on what I would call the Generational Level of time, a group of 6 waves of 8.6 years that forms the major wave structure of 51.6 years. It is at this level where the extraordinary complexity on smaller levels combines to create major trends between Public and Private Confidence Waves. Groups of 6 waves of 51.6 starts to cause the rise and fall of nations.

Public v Private



The **Public v Private** aspect is present at all levels of time. It is at times like a child who runs back and forth between two parents to obtain the desired result. We can observe this phenomenon currently between **Public** and **Private** swings even on the monthly and yearly level of the 8.6 year waves. For example, capital flees the private sector and rushes to what is commonly called the "flight to quality" bidding government short-term debt to the point that interest rates implicitly created by the **Free Markets** is virtually zero. Historically, there have been times when this will even go negative - the price for capital shelter.

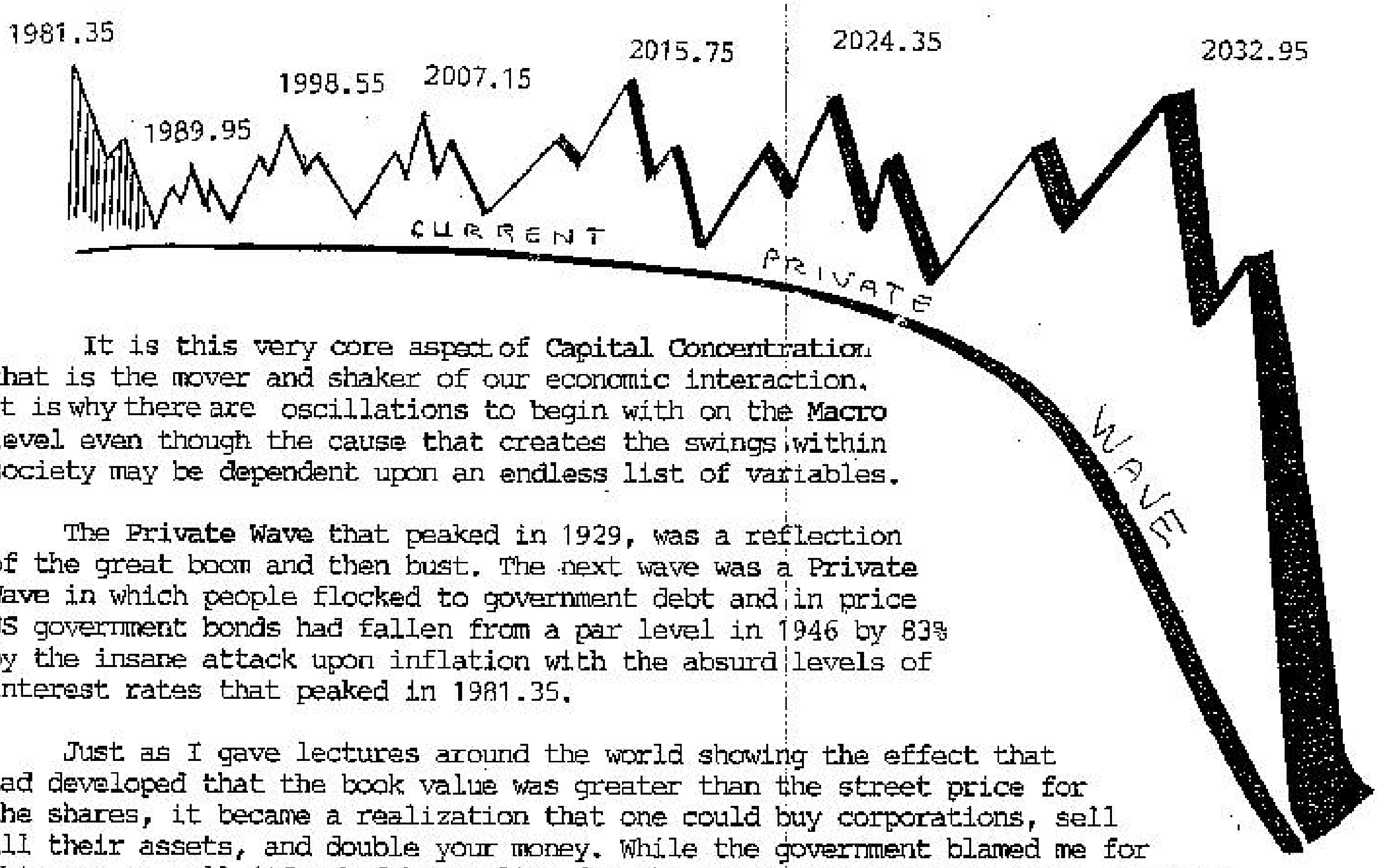
We must understand that looking down upon the economic structure from high above, we can reduce it at times to a single trend. However, to create that trend is truly a synchronization of tens of thousands of individual facts that are individually created by combinations of another layer of thousands of different stimuli.

We must consider this entire economic system as a forest. If we look at only a single tree and perhaps one bird sitting on its limbs, a few ants lurking at its base, we can draw a conclusion that is far from complete. Now we see a second tree standing right next to it. It has a squirrel looking for nuts. At its base is a mouse. We now assume that there can be a few other types of animals taking up house in a tree. Now we look to the left and see another tree. Here sits in its limbs a hawk. At its base, there is a snake. Suddenly, the snake sneaks up and crosses over to grab the mouse. The bird sitting in the middle tree hears the screams of the mouse and takes flight. The hawk, leaps into action and grabs the bird in mid-flight. All of a sudden, we see thousands of other trees behind - it is a forest. The full complexity hits us in the face - this is a complex eco system with thousands of different trees and species. Trying to model this is fascinating, and requires a lot of computer power to track the host of individual variables. This is the same event horizon that shocks those about the economic structure of mankind. When a politician employs Marxist ideas to try to stop Capital Concentration among the multitude of individuals, we are effecting everything else just as if we killed all the hawks because we don't like that they kill pretty birds.

Taking the socialists-Marxists into the real world, they would find it unfair that one animal will survive by eating another. If they could also outlaw nature, they would no doubt pass a law that would outlaw the killing of any animal by another animal that included man. That would be fair following the same reasoning of the socialists-Marxist politicians.

The Capital Concentration that takes place between individuals is no more wrong that it is for the concentration of capital within a sector or among nations. Perhaps we should take all the wealth of the "developed" nations and now redistrubite that also equally among all nations? Let us confiscate all wealth and give it to the poorest nations on earth so that we all live in mud-huts on an equal footing.

Even the **Ten Commandments** disagree with the socialists-Marxists for it forbids the coveting of their neighbor's goods or wife. Yet this is precisely the sin of the western politicians who obviously disagree with God and the laws of nature. So perhaps we just should stop the cyclical path of the earth around the sun, forbid it to rain on any weekend, and outlaw the killing of any animal by another because that is not fair from the meal's perspective. Politicians may be well-intended, but if they know nothing about medicine and they rush to the aid a someone fallen, they may actually cause his death because they are not a doctor. Don't mess with what you don't understand!



It is this very core aspect of **Capital Concentration** that is the mover and shaker of our economic interaction. It is why there are oscillations to begin with on the **Macro** level even though the cause that creates the swings within society may be dependent upon an endless list of variables.

The **Private Wave** that peaked in 1929, was a reflection of the great boom and then bust. The next wave was a **Private Wave** in which people flocked to government debt and in price US government bonds had fallen from a par level in 1946 by 83% by the insane attack upon inflation with the absurd levels of interest rates that peaked in 1981.35.

Just as I gave lectures around the world showing the effect that had developed that the book value was greater than the street price for the shares, it became a realization that one could buy corporations, sell all their assets, and double your money. While the government blamed me for this one as well (if I had been alive for the Great Depression no doubt I caused that as well), pretending I could manipulate the world economy. To even state such an idea shows the type of morons we have in charge of the regulatory agencies.

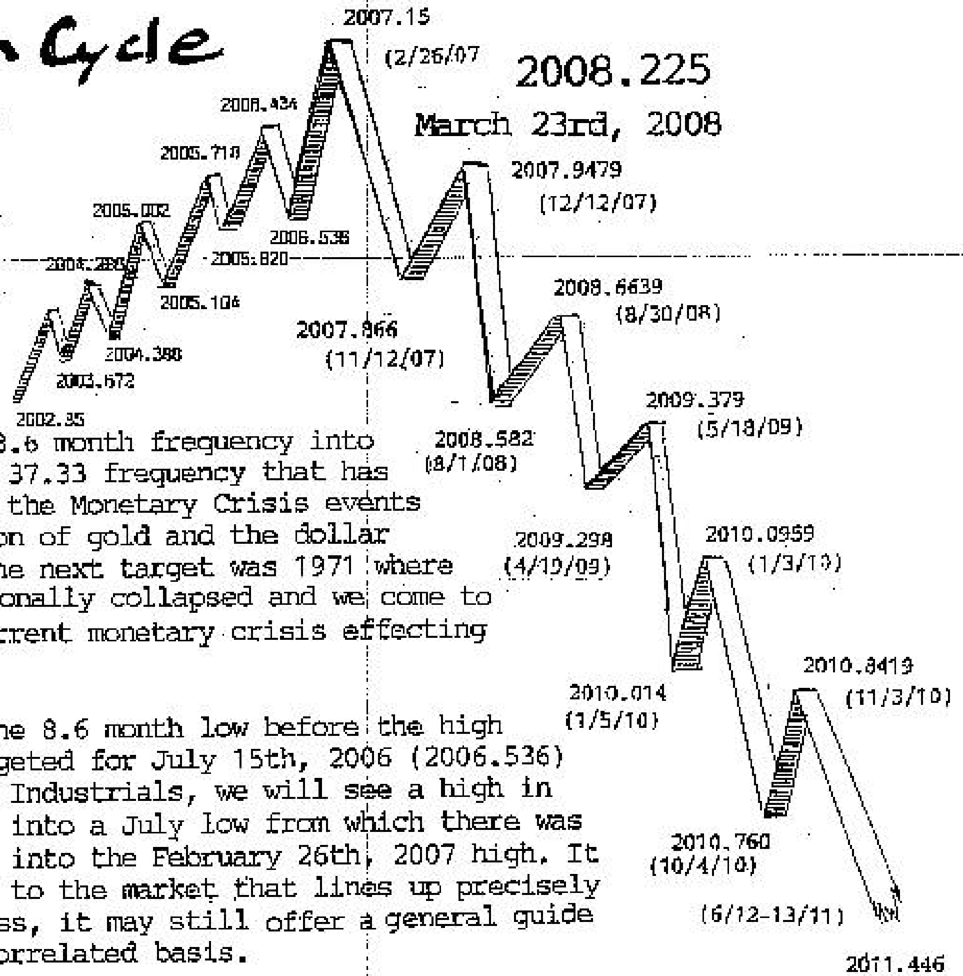
I no more created the take-over boom by merely giving lectures and drawing the attention to the effect at the beginning of a **Private Wave** at the end of a 51.6 year **Public Wave**, than someone pointing out the possibility of a major influenza. I no more caused the value of companies to be so cheap that was exploited by the marketplace than anyone else. But this is a western problem with our thought pattern. We constantly try to blame one individual for the causes of the whole trend.

Now that we understand that what makes one economy boom against all others, or a particular sector within an economy because **Capital Concentrates**, now we can look at the **Economic Confidence Model** with the proper perspective. This is a global model of economic activity that highlights the raw fact that man will speculate no matter what and that creates the **Capital Concentration**. The **Economic Confidence Model** gives us the perspective of short-term business cycle movements at the 8.615384615 year level, but this frequency moved both up and down in time in layers like an onion. It builds into groups of 6 waves forming a 51.6 year major cyclical wave where confidence between the people and the state alternate at the generational level. This builds into 6 waves again of 51.6 years into 309.6 year waves upon which nations rise and fall. Moving lower, this same frequency takes place on an 8.6 month, week and day level in time as well.

The 8.6 month Cycle

2008.225
March 23rd, 2008

If we look at the 8.615 monthly level, this amounts to .716 of a year. To the right, please find the overall projections for this 8.6 year wave that peaked at 2007.15. This shows another layer of hidden order within the wave.



If we break down this 8.6 month frequency into weeks, we again come to the 37.33 frequency that has produced on an annual basis the Monetary Crisis events such as the 1934 confiscation of gold and the dollar devaluation by Roosevelt. The next target was 1971 where the gold standard internationally collapsed and we come to 2008 thereafter, and the current monetary crisis effecting the whole world.

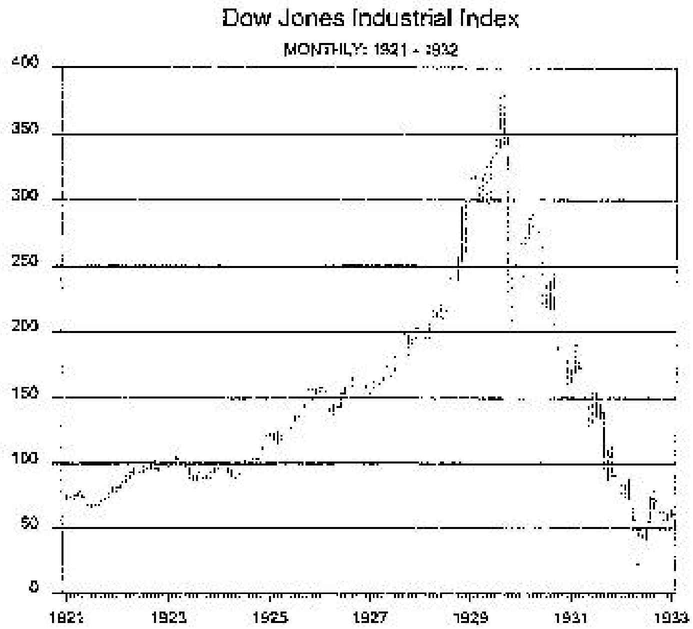
You will notice that the 8.6 month low before the high at 2007.15, was ideally targeted for July 15th, 2006 (2006.536) If we look at the Dow Jones Industrials, we will see a high in May 2006 followed by a drop into a July low from which there was then a steady uptrend going into the February 26th, 2007 high. It is not a specific guide but to the market that lines up precisely with its timing. Nevertheless, it may still offer a general guide for period of change on a correlated basis.

I have spent a lot of time trying to comprehend how such a model can even work on a specific level to a precise day years and decades in advance. The only explanation is the subject matter is so intensely complex, that there is indeed a hidden order within what would appear to be random chaos.

The first time I and our clients observed the precise nature was the 1987 Crash. Here was the target 1987.8 (365 x .8 = October 19th, 1987). Never did I expect this to work on such a precise time level. It made no sense. I personally assumed it was just a fluke. This took place on the minor half-way point up the first leg of the 8.6 year cycle at 2.15 years. Clients began doing their own research and finding incredible periods of accuracy.

The turning points kept pinpointing specific days. While Japan peaked in line with the model 1989.95 that had correctly shown the bubble top as capital concentrated in Japan sending the Nekkei 225 up to test the 40,000 level, the 1985.65 low picked the start of the G-5, the peak in the dollar, and the next low of 1994.25 pinpointed the precise low of that year for the S&P 500 index in the United States. The next high of 1998.55 (July 20th, 1998) was the precise high in the share market and as the decline began to unfold, then Russia collapsed and that was immediately followed by Long-Term Capital Management collapse in September.

The next target was 2002.85 that worked out to November 6th, 2002. We do not find the US share market as measured in the Dow Jones Industrials or the S&P 500 bottom precisely for they bottomed just a few weeks before in October on a lessor target. But this 2002.85 turning point was essentially the low formation after the 2000 bubble top in the Nasdaq on March 24th of that year. We then see from that bubble top a collapse from 4882.00 to about 800 by October 2002. This bottom was 2 weeks ahead of the 8.6 yr **Economic Confidence Model** turning point due on November 6th. This was a good thing insofar as the failure to bottom precisely on November 6th, precluded a return to the capital concentration in the **Dot.Com** stock sector. The shift for this cycle would be to the Financial Stocks that would peak precisely with the 2007.15 high setting in motion thereafter, the collapse we are now experiencing.



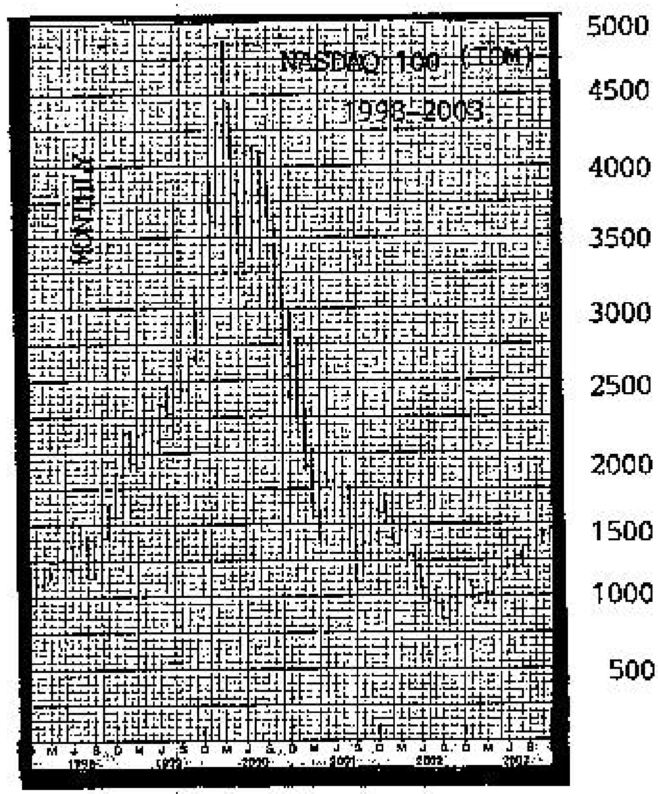
There are those who no matter what you show them or what you say, they will never believe in cycles. For those of us who do, we need that disbelief to trade against. There always has to be two sides to a coin, as well as a market.

Perhaps it is like frying an egg. It just takes a ceratin amount of time to cook. For example, if we look at the Dow Jones Industrials for the Crash of 1929, we see the major high took place intraday at 386.10 on Tuesday September 3rd, 1929. The intraday low took place on Thursday July 8th, 1932 at 40.56. This was 33 months from high to low.

The decline was devastating - 89.4% on an intraday basis. Even on a monthly closing basis, the turning points were August 1929 and June 1932 - still 33 months apart.

If we now look at the NASDAQ 100 Index, we see the peak on March 24th, 2000, with a 31 month decline into October 2002. This is just 2 months shy (slightly less) than it took for the collapse of the stock market during the Great Depression. While the NASDAQ may be following the broader pattern like the NIKKEI and eventually establish a lower low because it did not bottom precisely on the target of 2002.85, that few weeks makes all the difference.

If we turn to the NEKKEI 225, the major high was December 1989, the first low was October 1990 (10 months) followed by a 5 months reaction rally, that was then followed by a 16 month decline into July 1991. This too was 31 months from the high on a closing basis with the intraday low forming in August '91 making that 32 months. That low was penetrated in September 1998 for the **Long-Term Capital Management** collapse followed by a 16 month rally and a new collapsing trend into January 2003. Yet, the 31-34 month target for the possible major low is a universal pattern that I can only explain as it take just so much amount of time to good an egg.



Look a major collapses from all bubble tops and this is what you will find. The minimum amount of time to complete the fall and decline is this 31-34 month time period except in the Waterfall Events.

The 8.6 Week Cycle

As we peal back this onion in time, we now decend into the the next layer where we can regroup the events in time in neat intervals of 8.6 weeks. This is measured by taking 8.6 days, multiplying this by 7 that gives us 60.2 days. Now dividing that by 365 days, we end up with 0.164931506% of one year.

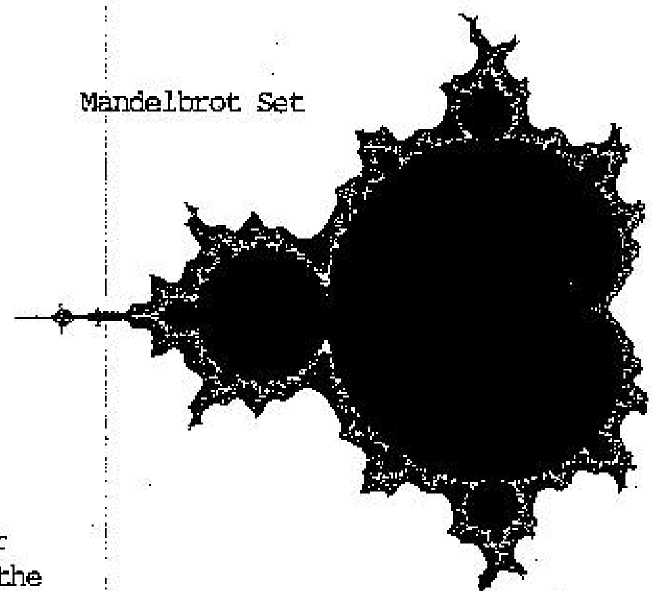
Understanding this complex wave structure becomes quite interesting. The half 8.6 year cycle is obviously 4.3 years, and if we multiple that by 52 weeks, we end up with 223.6 weeks or 224. Remember that the total time originally was 224 years between 1683 and 1907 from which the 8.615 year frequency was in fact discovered.

We can see the semetry that begins to jump out at us from the calculations of time itself. Here we have the 8.6 year cycle the was discovered by taking a total of 224 years and dividing this by the number of events being 26, and yet again on the weekly level, taking half the 8.6 year cycle wave of 4.3 years, we again find that there is 224 weeks. This is fractal in nature whereas the same activity emerges on all levels of time that we can now see is an economic onion with a host of layers waiting to be discovered. This is the fractal <u>proof</u> of the 8.6 year frequency is not a fluke but a structured order within nature. The fact that it becomes the perfect cycle for the number of days within the 8.6 year cycle is equal to Pi x 1000 (3,141 days), gets the mental juices flowing for we are on the edge of a new frontier in time.

The Fractal Nature of Time

There has been a lot written about the Science of Chaos. The true person to develop this field was B. Mandelbrot. The science of chaos that produced the fractal geometry I regard from a pure economic perspective, as a <u>proof</u> of the existance of layers upon layers, but it offers no predictive value for our real economy in the traditional sense.

Mandelbrot Set



What fractal geometry demonstrates is that there is <u>no</u> real chaos, just such a degree of complexity that our eye has been unable to see the complex order. Fractal Geometry and its insights is based upon **Complex Numbers.** For those who do not remember the school days, unlike <u>all</u> other numbers, the Complex Numbers do <u>not</u> exist on a horizontal plane. The Natural Numbers 1 through 9, for example, can be plotted on a horizontal line.

Unlike **Natural Numbers**, **Complex Numbers** do <u>not</u> exist on a horizontal line. They exist <u>only</u> on an x-y coordinate **time** plane where **Natural Numbers** and **Regular Numbers** on a horizontal grid <u>combine</u> into what we call **Imaginary Numbers** on the vertical grid. These **Imaginary Numbers** are simply numbers where taking a negative number times another negative number produces a <u>negative</u> instead of a positive number, i.e. -2 * -2 = -4.

If we take a **Complex Number** and subject it to interation, taking the result and then feeding it back into the next starting point for the next **interation**, we begin to see the chaotic nature where what appears to be random noise, turns out to be a new world of vast complexity. The **Mandelbrot Set** is thus:

z -> z^2 + c

(c = any complex number)
(-> means iteration using the feedback result of the last iteration is the constant z^2 + c, z= the next repetition)

What this equation revealed was life itself. It is what I call the self-referral whereby two people have a child and that child is a blending of the hosts and thus it is nature's way of perpetuating the same DNA through a series of generations that in math terms is a interation. Somehwere down the line, a child will be born that looks identical to one of the original hosts.

Time and cycles perform the same amazing structure. We are perpetuating the very same patterns over and over again, with slight variations. What the politicians are trying to accomplish in their socialist-Marxist doctrines of redistributing wealth, is to reduce everyone to be equal economically. They see this as injustice to allow one person to have something more than another. To express this in math terms, they are trying to reduce society to nothing more than the number 1.

If you take the pure non-complex number one and multiply it by itself, you will always end up with one. Try dividing 1 into 1, and you will get the same result. It is what I call in math more than boring, it is pure death. There is no life that can exist if there is only the number ONE. Without the male and the female, there is no possible extension of life. Yes there are some exceptions were some life forms can self-reproduce. But this is not purely ONE either.

If we take the number 1.1, we suddenly have a non-complex form that becomes predictable. If we take this number and repeatedly square it, we will soon reach infinity. 1.1 * 1.1 = 1.21 * 1.21 = 1.4641 * 1.4641 = 2.14358, etc. After just 10 iterations we reach 2.43 to the 10th power. The same amazing process will take place by using the numbers below 1 such as .9 * .9 = .81 * .81 = .6561 * .6561 = .43046 and after 10 iterations it becomes 1.39 to the 10th power an incredibly small number.

Therefore, if we take a complex number outside of 1 or inside of 1, we will quickly square off into infinity both large or small virtually reaching zero. It is the self-referral process that creates the extraordinary complex structures that perpetuate life even within the cycles of time. The iterations become stable that remain within the real world not infinity nor zero. It is this hidden order that can be verified mathematically that also controls our economy if we try to look.

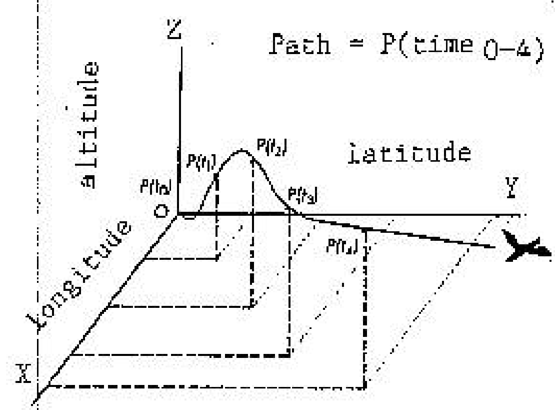
What we begin to discover is that what appears to be negligible minor variances in complex numbers, when placed within the feedback loop, create starkly different results. There is thus what I call a **Fifth Dimension** of hidden order that lurks behind the entire structure of the world. As you will see, **"Time"** is the **Fourth Dimension** as distinguished from what I am calling the **Fifth Dimension** of self-referral.

Inside the Western Mind exists a prejudice that may stem from the Dark Ages. It seems to be rooted deeply in prejudice and bias that perhaps attributed every possible event to the will of God. For example, the attack of the arabs upon the Byzantine Empire was blamed upon the worship of icons, even though they were the images of Christ. The Emperor Leo III took a public stand prohibiting icons, ordering his troops to confiscate them (which were adorned with gold and silver), used the precious metals to refill his treasury, and began a persecution of those who had refused to comply officially prohibiting them in 730. This led to the wholesale killing of Christains who objected to the new Rule or Law and they were horribly put to death under the successor to the throne, Constantine V (741-775). At the core of this murder of the citizens, was the claim that the Byzantine Empire lost its territory to the arabs because God was punishing them. We saw the same pronouncement under Pat Robertson who first stated that the World Trade Center fell because God was punishing New York for its sinful ways making the terrorists the hand of God.

We saw in the middle ages the same simplistic views where there was trial by ordeal. There was what was known as the "appeal of the corpse" that the belief that the blood of the victim would flow at the touch or nearness of the murderer. There was the trial by ordeal of fire and water that were the most common predating the jury trial. The widespread practice of dunking a suspected witch was based on the notion that water, being the medium of baptisim, would "accept" the innocent where the guilty would float. This had the ignominious effect of the innocent drowning and were now with God while the person who floated was rejected by God and then killed. In Southern Asia, we see the same nonsense, where a wife would be required to walk on hot coals and if she was untouched, her fidelity was vindicated. In Burma, two people were given a candle. The one whose candle melted first was guilty. When the Greeks would pray to Poseiden or Neptune, it was not an act of worship, but a plea to be left alone and allowed to pass unharmed on the voyage. The gods were seen as mischievous beings who took fun in tormenting man. To a large extent, it is the Fifth Dimension that exists to which mankind seems to have ascribed the will of the gods, instead of may be it is merely the design of God, not vengeance.

THE THREE DIMENSIONAL PLOT

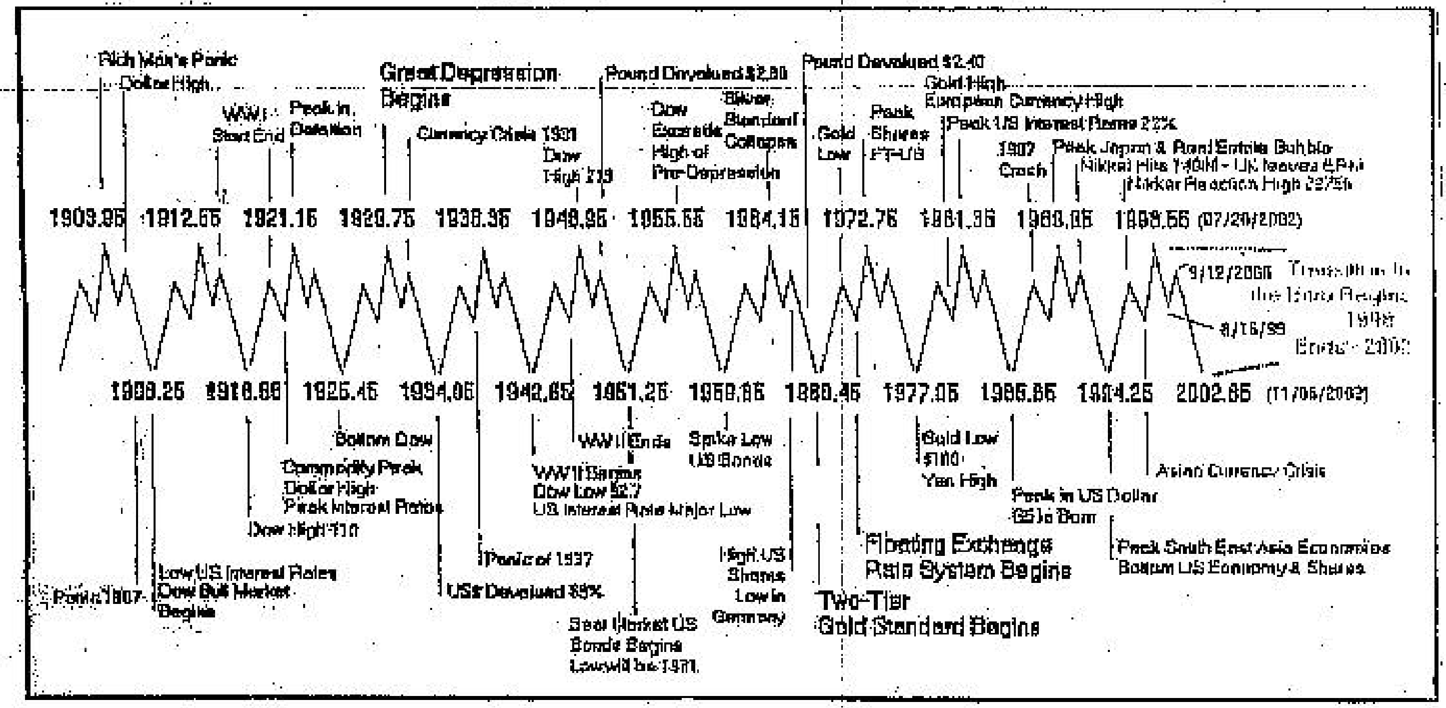
Once we cross into a three dimensional world, our simplistic bias of x is the result of some action by y, gives way and the monkey suddenly sees that the stone can make a useful tool. We are strangely stuck in a primordial ooze that is so hard to graduate from for we are more often than not, a fly just stuck on the glue and cannot free ourself from the two dimensional world.



We can plot in a three dimensional world an airplane. The x is now the longitude and the y is the latitude. The next dimentional aspect becomes the z plane of altitude. Now we have a three dimensional map to pinpoint where an airplane maybe on the globe. But now there is suddenly a Fourth Dimension that is "time" that cannot also just be ignored. We can plot where the plane is in the sky with the x-y-z coordinates, but that is good only for a fraction of a second. The plane is moving and this introduces the element of "time" for it will not be at the same position on an x-y-z coordinate plot between two readings because the object is moving and the speed cannot be measured without the Fourth Dimension of Time.

Economic Confidence Model

One Hundred Years of turn points

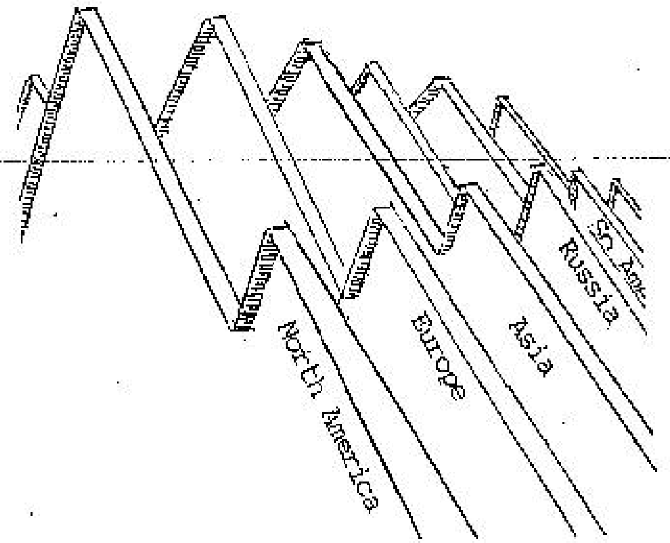


Hopefully, you are starting to see a glimpse of the hidden code behind the whole facade we live within. The Economic Confidence Model is not a specific map of "time" that is derived from a single market or economy. It is the collective behavior of the whole that tracks the rise and fall of our economy and attracts the "hot" money because it is the reflection of the Concentration of Capital (Wealth) that goes far beyond what Marxists hate so much, the rich, but it is the relection of the pure and simple Concentration of Capital that moves the fate of nations, sectors, as well as individuals. Just as Protectionism was wrong and destroyed the economy because this was the Marxist view of preventing the Concentration of Capital among nations, we must stop this nonsense also on the individual level. We have to stop this coveting of thy neighbor's goods. This has nothing to do with "justice" in the social setting. There are people who enjoy working for the challenge, while others will prefer to avoid work at all costs yet demand it is not fair that someone else has more than themselves. This is wrong and until we put an end to Marx, we cannot escape our own prejudices and are doomed to fail like those who believed in the trial by ordeal.

Currency is nothing more than shares in the national corporation, and debt is merely an option on those shares. The currency rises and falls not purely do to the misguided belief of supply and demand, but upon the rise and fall of confidence. Do we believe government is doing a good job or not?

We can see from the above illustration of the Economic Confidence Model that there has always been a delicate dance between the effects that follow the path of "time" as the Fourth Dimension adds to the basic equation What-How-Where with the fourth variable "When" and now we have the hidden complex field behind everything that adds the next portion to the equation "Why" that can be explained only by the Fifth Dimension of complex interaction through the process of "self-referral" that allows history to repeat. We are getting closer to the real causes and effects that have tormented mankind and often caused such hardship by the attribution of normal events to the folly of gods.

Economic Confidence Model

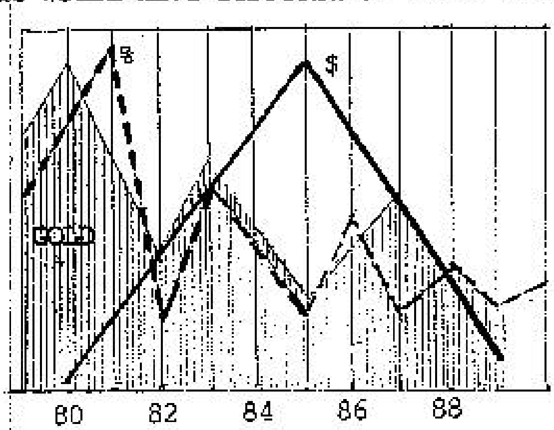


We can now begin to understand that inside the **Economic Confidence Model** is all activity from each sector found in each country, and then we take the major countries and incorporate them as well. This allows a grouping also on a regional level that starts to produce a map of the real world economy.

The failure of the investment banks in constructing models, has been their biased view that the world seems to have been invented at **Bretton Woods** in 1944, the G-20 meeting of the day.

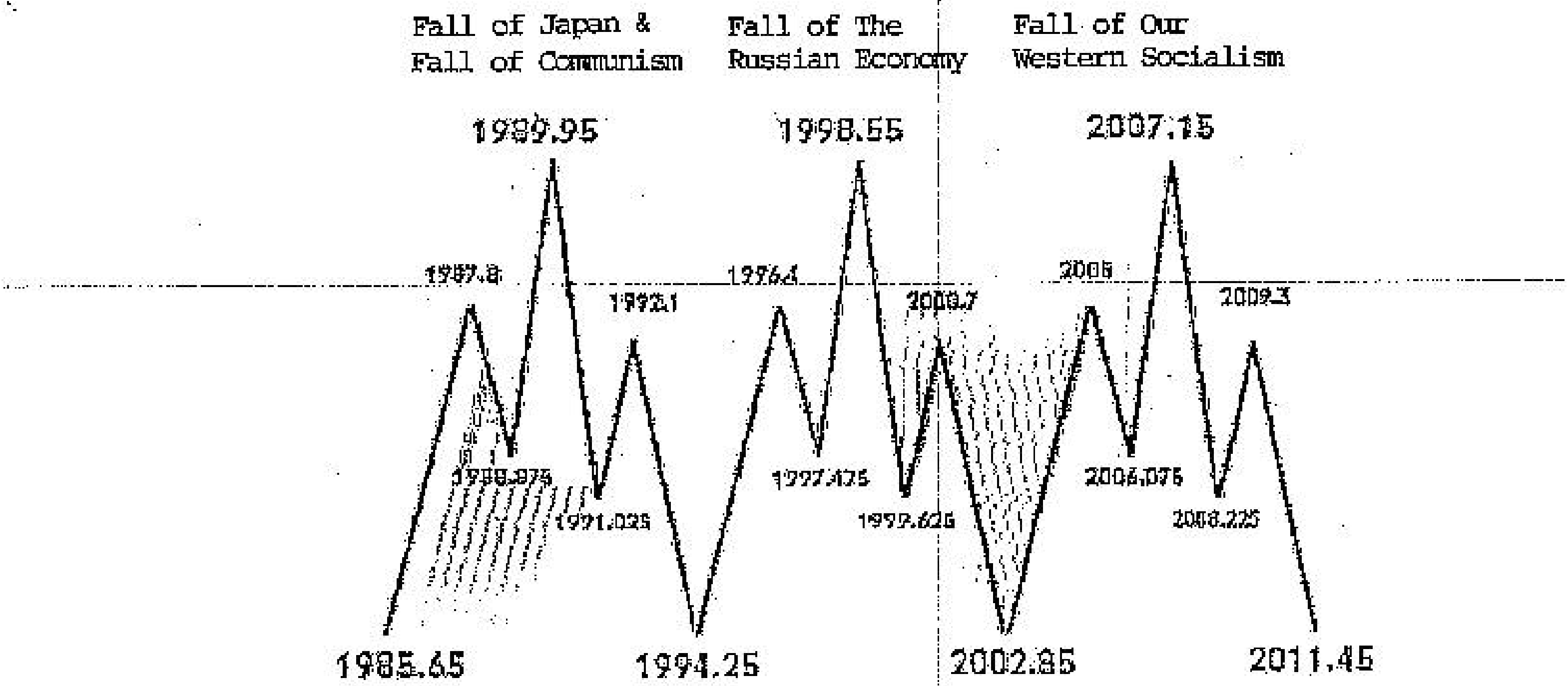
They have failed to create data bases that show all the possibilities. So when the mortgage market was being used for the new form of derivatives, they knew nothing about how a correlation could take place among the various sectors, including their own demise, that would have foretold of their own decline and fall.

It is the correlation that they failed to map and understand. To the right, is a brief representation of how gold, dollar, and interest rates created a correlation that was not immediately effected as we have seen immediately, but nonetheless set in motion a series of events that were thus the driving force behind what we even face today.

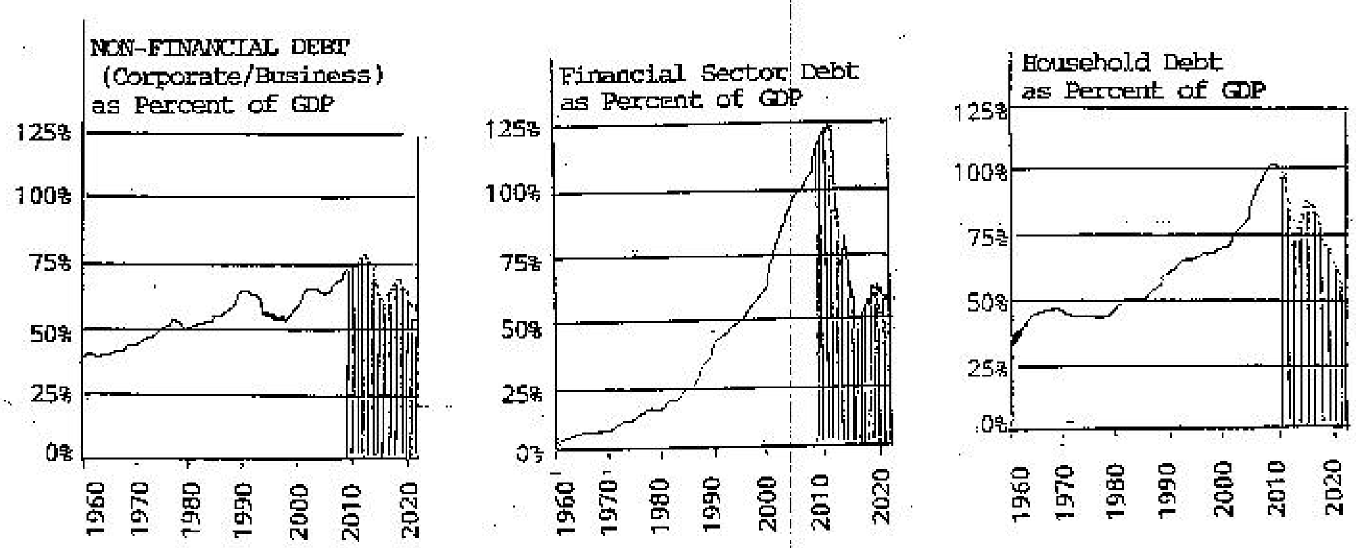


It was the failure of Government to have understood that they could not fix the dollar to gold at $35 in 1944 and then continue to print dollars with no regard to the ratio of gold to dollars. Clearly by 1971 when the gold window had to be closed because there were far more dollars than gold when still fixed at $35, the refusal of government to admit their mistake caused the floating exchange rate system to then evolve. As the dollar crashed and burned, gold rose in value to $875 by January 21st, 1980. Paul Volker, Federal Reserve Chairman, was very much old-school. He saw the rise in gold as the test of his success or failure.

Inflation was seen as the rise in the prices of goods and services rather than the increase in the supply of money driving the "confidence" in the United States to collapse. Thus, Volker rose interest rates to historical highs that were traditionally charged bankrupts. This caused the flight to the dollar from tangible assets meaning gold collapsed. But as the dollar rose in value because of the interest differentials and the belief that the US would create a two-tier currency causing the Euro-dollar to be worth less, capital poured into the United States. The dollar rose to historic highs since the Great Depression causing the trade deficit to explode, and then we find James Baker come up with the idea of forming a G-5 in 1985 to begin to create a coordinated effort to drive the dollar down by 40%. This set in motion the collapse of the dollar and the 1987 Crash, sent capital fleeing the dollar and concentrating back in Japan to create the bubble top in 1989.95. When that bubble burst, capital fled to Southeast Asia. When that bubble burst, capital fled back to the US for the low in the US share market 1994.25 and back to Europe in anticipation of the coming Euro. Each action caused a reaction setting in motion what we have today. If we do not wise up, we will create World War III by the sheer stupidity of our Marxist ways like the Keystone cops.

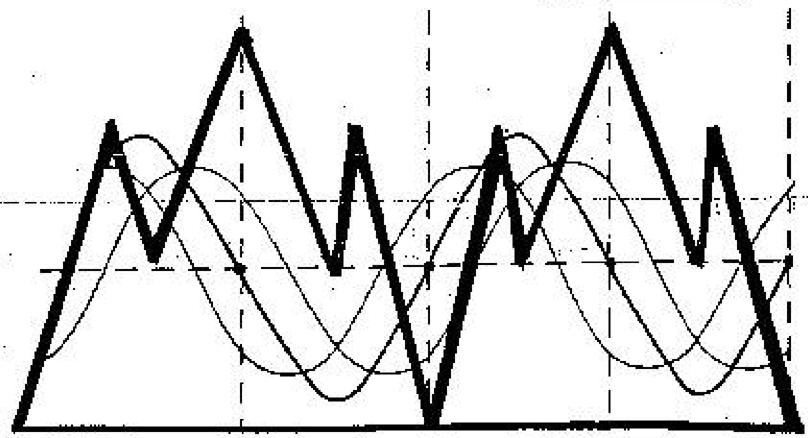


This current **Private Wave** that began in 1985.65, is marked by the traditional aggressive behavior of Government to become more punitive than during a **Public Wave** because they tend to be trying to hold-on to powers they feel are slipping through their iron grip. We saw on the first wave the Fall of Japan & Communisim in China and Russia. The collapse of the Russian economy took place on the next causing the cascade ending in the fall of **Long-Term Capital Management**. This was followed by the low in gold in 1999, the bubble top in 2000 **Dot.Com Stocks**, and the 31 month drop into 2002.85 for the low. Then there was the 2007.15 peak in the Financial Sector.



If we look at the debt, we can easily see that we are dealing with a bubble top in the Financial Sector, led by the Investment Bankers. We have see the collapse of Merryl, Leman and Bear Sterns. J.P. Morgan Stanley is abandoning the proprietary trading reliance and adopting the more conservative approach of returning to be the retail brokerage. It is Goldman Sachs that refuses to reform and has poured itself back into its proprietary trading acting like a preditor hunting out even clients and trading against their best interests. When you view your client as a adversary, something is wrong. We may yet see the collapse of Goldman Sacks. We still have 31-34 months to go from the February 2007 high that will be the September-December period of 2009. Just remember, this cycle has been the Concentration of Capital in the Financial Sector where the trouble really is, not the general corporate area.

THE SIXTH DIMENSION



Now that we can see that we are dealing with the Concentration of Capital and the demise of the Financial Sector is the main focus as illustrated by the front page story of the Wall Street Journal for May 6th, 2009 brandishing the headline:

Brokers Abandon Wall Street

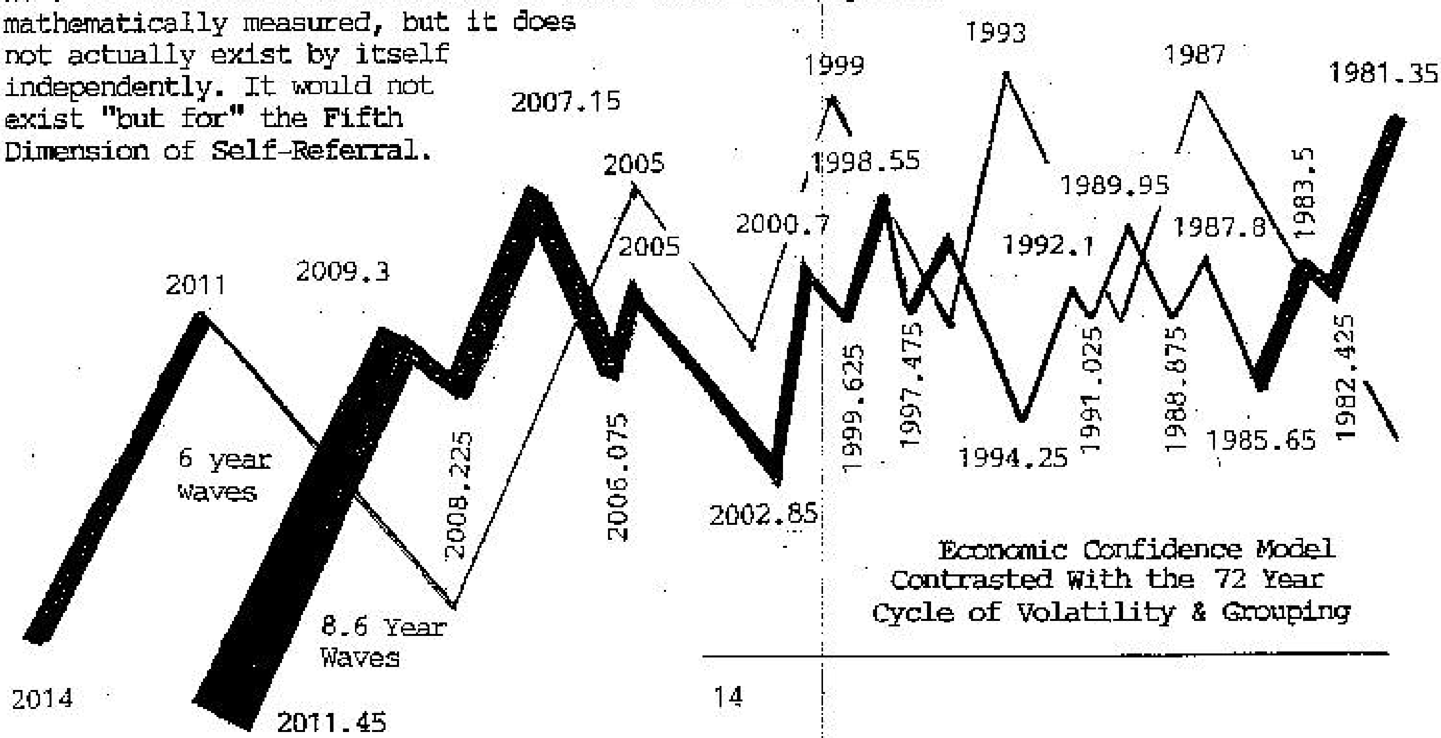
Reporting that "nearly 35,000 brokers would leave by year end," the key to comprehending the complex nature of the economy rests not merely in the correlation of economic activity on a global scale, as well as on a sectorial basis in each economy, but then we have the global market components that form the Sixth Dimension.

Each individual market has its own cyclical nature. It is the combination of the markets that creates a correlation. What we must also understand, is that if you have a portfolio, let us say of diverse corporate bonds, mortgage grouped bonds, and various government debt, there is an interaction between each that formed a constructive composite that may have deeply embedded correlations. For example, if there is a widespread trend within the mortgage debt that goes into default, will this have a correlation to the corporate debt? If the corporate debt goes, will this have a contagion effect that then spreads to sovereign debt? Everything is inter-related and there is always a contagion effect the spreads on a correlated basis. Politicians seem to have just discovered this calling for G-20 meetings and global tax reform etc.

Behind the Economic Confidence Model stands the individual markets globally that will combine and correlate producing a greater effect by the sum of their parts. This greater effect becomes the confidence, for once shaken, it is hard to stir it back up.

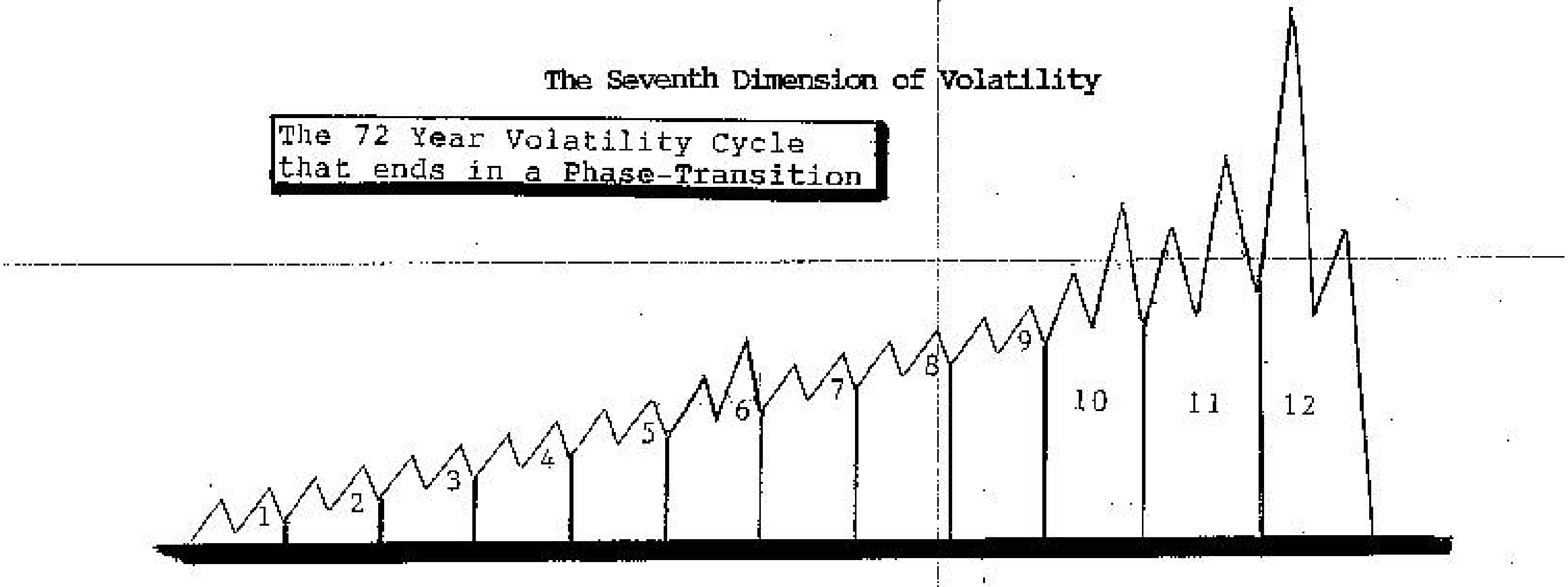
THE SEVENTH DIMENSION

The Seventh Dimention is volatility. This is an intangible dimension insofar as it is a field that is a derivative of other dimensions, yet it can be observed and even mathematically measured, but it does not actually exist by itself independently. It would not exist "but for" the Fifth Dimension of Self-Referral.



Economic Confidence Model Contrasted With the 72 Year Cycle of Volatility & Grouping

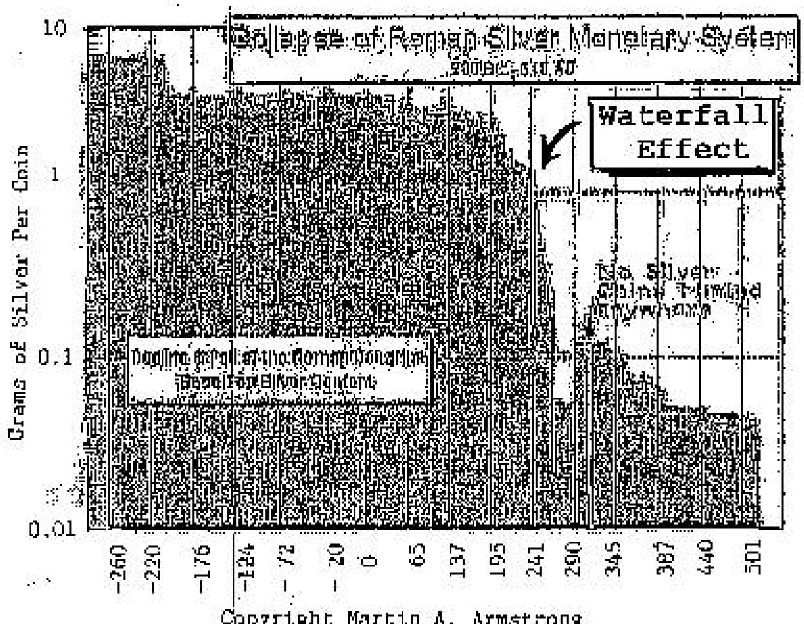
The Seventh Dimension of Volatility



The timing elements of the Seventh Dimension of Volatility moves in sub-waves of six that build up into major waves of 72 years. However, the half-cycle, 36, tends to also produce very meaningful events. For example, this is a major factor in creating the significant lows following a bubble top that form within the 31-36 time intervals. Yet like we find in the 8.6 year cycle layers of organized correlations throughout time, we also see the same effect here as well on weekly, monthly and yearly levels.

Putting It All Together

There is a **Eighth Dimension** that I have called the **"Schema Frequency"** that I will save for the forthcoming work, "The Geometry of Time." This dimension is where we find the pattern replication from which we end up with a host of various methods of analysis including **Technical Analysis** and **Elliot Wave**. Both are derived from the study of patterns. They are based upon the short-term data that does not hold up on the major grand scale where the rise and fall of civilizations take place, for the pattern itself becomes a composite of the numerous components beneath. As pictured here, this is the collapse of the Roman Monetary System. When we rise to this level, we do not have the typical a-b-c wave that takes place in the short-term data. We arrive at what I call the **"Waterfall Effect"** is not a traditional bubble top or a spike high that collapses with standard type of patterns that we have been looking at so far.



This "Waterfall Effect" is much more akin to the exhaustion form of collapse. It is the sudden death where there is no fight left, and we look at the collapse of society. This effect is seen from time to time in brief market activity. This is akin to the death of even a person how they fade gently and stop just functioning.

The **"Schema Frequency"** also has a self-referral component, but it is something that is strikingly different. This is often where the explanation arives from for the key precise nature of why a particular day will actually become the focal point for the major economic event that can be predicted years in advance if not decades.

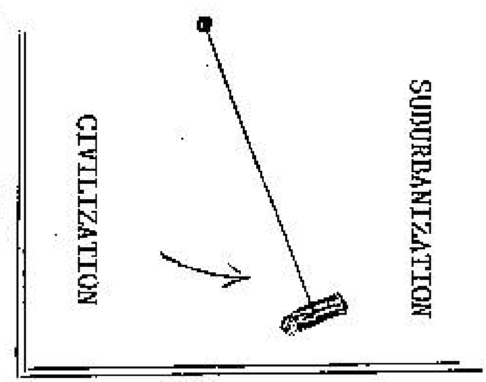
precise nature of why a particular day will actually become the focal point for the major economic even on the horizon that can be pinpointed years in advance if not even decades ahead of its time.

When we get into the **Schema Frequency** that constitutes the **Eighth Dimension**, what we being to understand is that for as fast as things do appear to unfold, in reality, we are like Superman who can see a bullet coming step aside so fast and observe it moving in slow motion.

Just as I explained that Volker's rise in interest rates set in motion the rise of the dollar into 1985 to all time record highs even above the Great Depression of the 1930s, this created a collapse in the dollar based manufacture making it so cheap to move offshore setting in motion that trend as well, but it also led to the decline in exports and the rise in imports expanding the trade deficit. That was followed by the attempt to manipulate the free markets by forming the G-5. That set in motion the 40% drop in the dollar that caused the 1987 Crash, sent capital fleeing and caused the **Concentration of Capital** back in Japan.

The rise in interest rates under Volker also set in motion the bubble top we just experienced with the Financial sector insofar as the percent of consumer debt has doubled due to the dramatic rise in the price of interest. This reduced the domestic jobs for to maintain the life-style, cheaper costs were necessary shifting manufacture and service jobs overseas. The banks consumed a much larger proportion household expenditure, causing profits to explode creating the bubble top in the debt markets. We are likely to see a continued implosion of debt that will cause the financial sectors to implode.

What I am trying to reveal is that the long-term events are set in motion that is so slow, we can easily predict and see them coming years in advance. That has nothing to do with predicting where the Dow Jones Industrials will close tomorrow. We are talking about the combination of trends that set in motion unfold slowly that this is the nature behind the "**Waterfall Effect**" that at this level we are not dealing with the spike patters as described in Elliot Wave Theory there is a basic structure of 5 waves to a bull market (3 up with 2 corrections) and a 3 wave form (2 down with a 1 wave reaction rally in between). There is nothing wrong with this observation, for it will hold true when there is no risk of a exhaustive collapse. When we find the "**Waterfall Effect**" there is just a rolling-over into a death throw. This is how both China and the Berlin Wall fell. You just woke up and suddenly it was gone. There was no spike high with a bubble type of top as we see in a stock or commodity market. It was just a complete exhaustion.



It is within this **Eighth Dimension** that we find specific patterns that unfold that the higher we go within the layers of this dimension, the slower events unfold making them easier to see, yet at the same time, may even take place beyond your generation.

This is where we find the long-term trends that contain to oscillations between **Civilization** and **Suburbanization** that leads to the periods like the dark ages. Even when we consider the weather cycles created by the 15% fluctuation in the energy output of the sun, we create the oscillation between a warm and cold climate. People now are calling it "global warming" when in the 1700s it was the bottom of the cycle and rivers were frozen over in New England that I have never seen happen at the 300 year cycle in the energy output of the sun.

It is also within this dimension that we find the effects of natural cycles of weather and even disease. While records of influenza only date back to 1610, the two great epidemics took place in 1889-90 and 1918. There were severe periods that killed a fair portion of citizens living in cities likePhiladelphia in the 1860s. Here too we tend to find 26 year outbreaks with fairly good regularity. For example, take the 1918 outbreak that was said to be the worse influenza in recorded history with an estimated 20 million deaths. Add 26 years we come to 1944 and if we add the half cycle 13 years we come to 1957. That is when a major influenza broke-out in Asia and has given the general label of the "Asian Flu" ever since. From 1944 we create a list of dates on the half cycle of 13 years of 1957, 1970, 1983, 1996, and 2009 with Swin flue right on schedule. Of course, the severity of each outbreak varies and must then be impacted by Seventh Dimension of volatility that controls the degree of the outbreak no different that the magnitude of a decline in a market.

Of course, influenza has not been the only disease to effect the economy. For centuries it has been the plagues that altered the course of events. The greates plague that perhap gave birth to our modern society was the "Black Death" of the 1300s. It is estimated that over 25 million Europeans died (unknown estimates in Asia). The European consequences wiped-out between 2/3rd and 3/4ths of the total population. This impacted economics because it created such a shortage of labor, it gave birth to wages and the end of serfdom. This sparked the greed of the King of England to invent personal income taxes and created the first tax revolt by Wat Tyler in 1381. Tyler led the first peasant revolt against taxation that succeeded is capturing the city of Canterbury on June 10th, the Savoy palace on June 13th (uncle of the King's residence), London Bridge and the Tower of London on June 14th. When Tyler met with King Richard II to negotiate, fighting broke out and Tyler was wounded. He was take to hospital, where the King's men showed up, dragged him from his bed, and beheaded him. The rebellion was then crushed.

There were many local plagues that began in the jails because the King would not take care of the prisoners. Taking them to court ended up spreading the new jail plagues to the judges and even the Mayor of London dies because of the mistreatment of prisoners. There was the London plague of 1664-65 that resulted in the deaths of over 70,000 in a population of 460,000 yield a mortality rate of more than 15%. In 1894, another plague began in Hong Kong and this spread unchecked throughout the ports killing more than 10 million by 1904. There was also the famous cholera pandemic of 1817 in India that spread to Indonesia, the Philippines, Iraq, Turkey, China, eastern Africa, and elsewhere. It is believes that perhaps more than 10 million died there as well, but records are not well kept. The island of Java alone reported a 100,000 deaths. There has also been the AIDS epidemic that according to the World Health Organization, about 33.2 million people were living with HIV in 2007. It is believed that more than 21 million deaths have been caused by AIDS.

Setting aside the jail plagues created in London by the deplorable conditions that citizens were subjected to, there appears to be a fairly constant cyclical frequency is pandemics following a 26 year intervals that seems to build up also into great periods of major eruptions every 224 years. Flue shots are cyclical based as well anticipating the next generation for the new year.

WE ARE OUR OWN WORST ENEMY

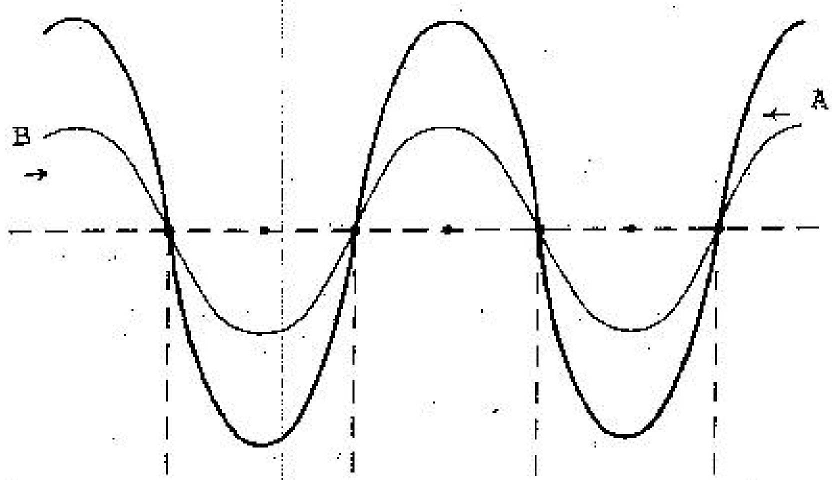
Because we may be inteligent, yet very dumb at the same time for a refusal to stop the knee-jerk reactions to economic events causing the cycles to even exist, the British are demonstrating precisely how to commit economic suicide. The New Labour government has signed in laws that control the - right to hire, fire, safety, health in workplaces, maternity leave that applies also to men, and a countless array of other measures. There are more than 20,000 new crimes mostly applying to industry and commerce, and it has hired 1.25 million people to administer all this. These are jobs that carry even more pensions, that will add to the debt in a endless cycle that will destroy the economy no different than Iceland.

We were an adviser to Acetel in Germany. I received a phone call in our London office asking if I and our German partner would please urgently attend a board meeting. I flew over with no expectation in advance as what was going on. The Board meeting began, all the directors resigned except for one, and Princeton was appointed as the adviser to the pension fund (not fund manager). I was stunned.

When I asked what was going on, I was told the company had applied to reduce its work force by about 25%. The German government approved it, but then changed the terms. It instructed the company that it could not pick and choose the employees for that was not being "fair" to the individuals. They had to offer 125,000 DM to give up your job voluntarily to all workers. What happened was clear. Those who knew they could find another job, quickly took the money and ran. Those who were poor workers who nobody would hire, stayed. The company was doomed. The directors all left themselves because they did not want it on their resume that they presided over the collapse. So the only asset left they believed would be the pension fund, and wanted independent over-sight. This is the problem when government starts to legislate fairness within the economy. They will destroy it for they know nothing about what they are doing.

I personally love Britain. I always thought it was the best place to live. It pains me dearly to see such insanity taking place for I fear that the day may yet come when it is just time to turn out the lights and reboot. Will there be another rise of Wat Tyler in the near future?

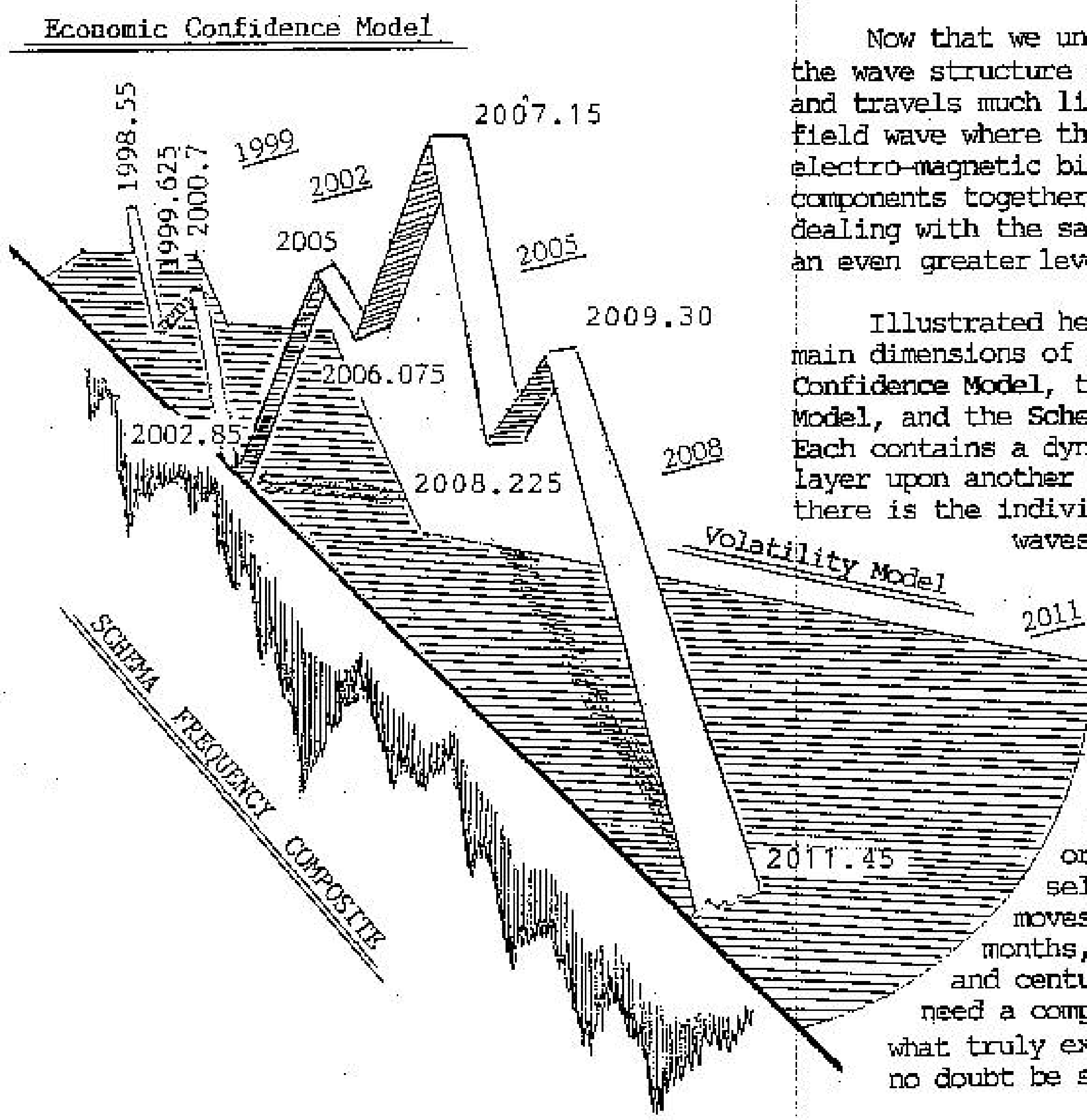
MANIPULATING THE ECONOMY



A = Natural Wave B = Manipulated Wave

I have laid out the general design of how the "real world" truly works. I cannot use a computer right now. I believe this is be design. But I hope that this provides a near-term glimpse of what we are really dealing with. This is not a time for one man's opinion of what will happen or not. This is a time for fact to prevent a economic disaster of untold proportions. This is no different than asking a politician to operate on your brain. He has not a clue of how the brain even functions. Would you let him just cut you open and take the casual approash of - Gee! Let's Try this one! There is a quantified and statistical way to approach our problems. If we keep ignoring them and only listen to those who bought their seats of power from the Investment Banking houses, we are surely doomed. This is our future we are dealing with. Not profits for the next quarter! We cannot change the cycle for it is a composite of so much more that I can explain in this short space. But I do believe like Joseph of the Bible, we can lessen the swings by understanding the nature of the beast. Just as the farmers lost their jobs during the Great Depression and had to become skilled workers, the Financial Sector is going to shed a lot of jobs and they should look at the computer field for the future.

The Dynamic Structure of a Multidimensional Wave

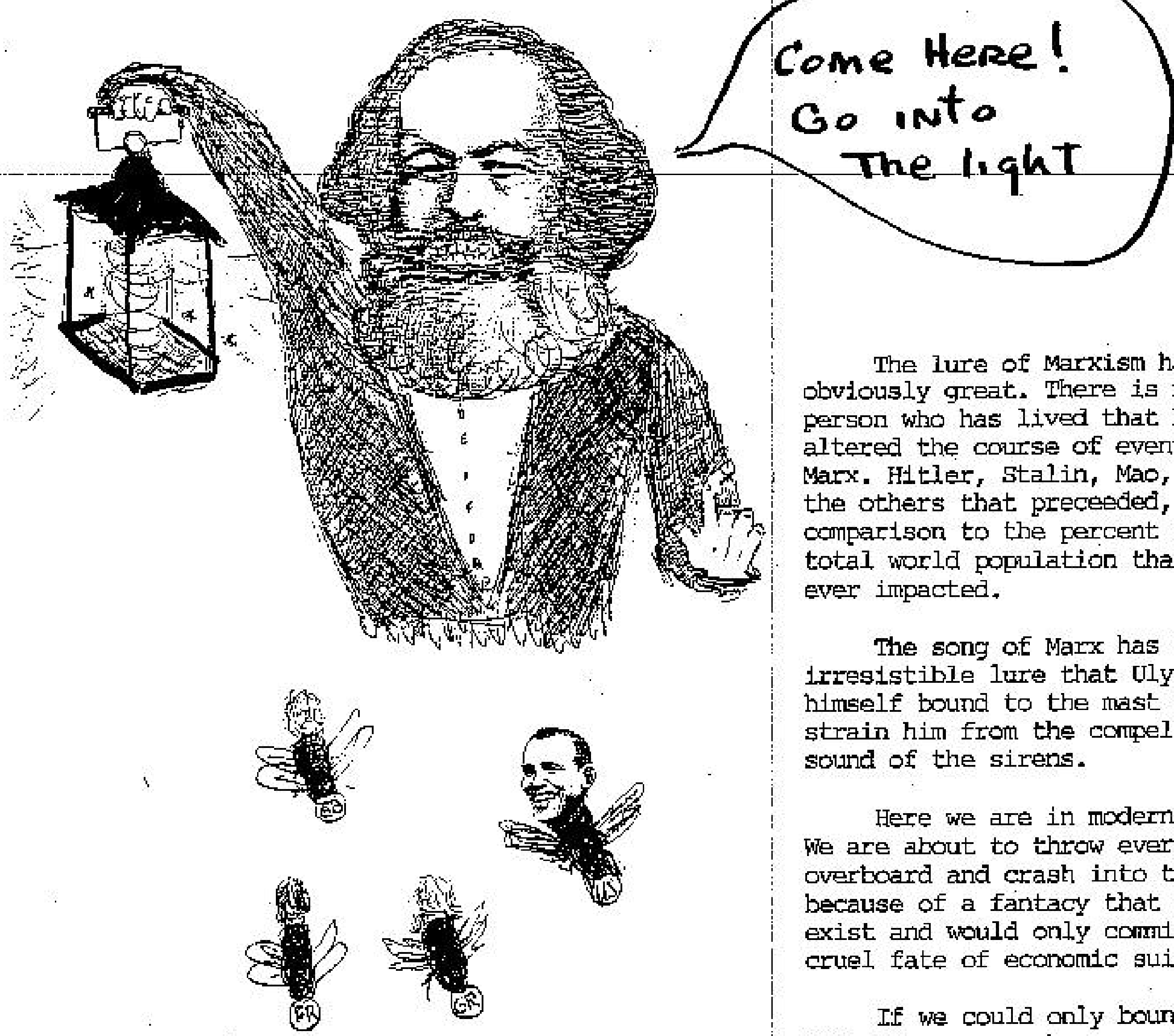


Now that we understand that the wave structure is multidimensional and travels much like light within a field wave where the two forces of electro-magnetic bind the individual components together, we are truly dealing with the same thing, but on an even greater level of complexity.

Illustrated here is the three main dimensions of the **Economic Confidence Model**, the **Volatility Model**, and the **Schema Frequency.** Each contains a dynamic structured layer upon another layer, and then there is the individual component waves inside the main structural wave that has embedded a vast new field of relativity.

Before I can truly explain the **Schema Frequency** and its extra-ordinary quality of self-referral that moves throughout the months, years, decades, and centuries, I really need a computer to show you what truly exists that will no doubt be shocking.

Within this complex structure is also simplicity. We are dealing with how our society functions. When it comes to this subject, we are as primitive as the Greeks worshiping at the temple of Neptune asking that the gods don't mess with us this time. What society has often attributed to the hand of God regardless who that God really is as some desperate way to understand why we are being made to suffer, there is another answer and it just may be the design of God himself. Perhaps the story of Joseph warning about the 7 years of coming drought was an indication that this is how we should manage our affairs, live with the cycle, not try to fight it. Often we miss the lessons of ancient stories like the Greeks chasing the Golden Fleese. That was a trip to the Black Sea where lamb skins were used to capture gold from the rivers like pans were used in California. It was not a literal lamb skin made of gold, but was renown in its day for capturing gold. It is time we stop the nonsense and free ourselves from this primitive way of thinking and progress in economic science as we have done in other fields. It is truly the time for change.



The lure of Marxism has been obviously great. There is no other person who has lived that has so altered the course of events than Marx. Hitler, Stalin, Mao, and all the others that preceeded, pale in comparison to the percent of the total world population that they ever impacted.

The song of Marx has been the irresistible lure that Ulysses had himself bound to the mast to constrain him from the compelling sound of the sirens.

Here we are in modern times. We are about to throw everything overboard and crash into the rocks because of a fantacy that cannot exist and would only commit the cruel fate of economic suicide.

If we could only bound ourselves like Ulysses, perhaps we could for once avoid disaster. But it does not seem likely.

Marx is standing on the rocks and the sirens have been replaced with technology - a bug light. Marx is calling to us, "Come Here! Go into the Light!" Britain is flying straight into the pretty blue light calling to others to follow. Capital Concentration is the very core of what makes society function. It operates among individuals, sectors, nations, and regions. Any effort to destroy this because it is not "social justice" to allow one individual to earn more than another, is against the Laws of God for it is the coveting of thy neighbor's goods, and it is self-destructive.

The reason why there was a feud between the Democratic-Republicans of Jefferson and the Federalists of Adams, was exposed in the war of 1812. The Federalists wanted to create a standing army, Jefferson wanted a citizen militia. He knew well that once a standing army was created, it led to war, and excessive government debt. The Inheritance Tax was created by the Romans 1/20% to pay for the pension of the veterans. To expand government and promise more pensions that we can not afford now, we are inviting the same fate as General Motors. Marxism is dangerous. It will lead to World War III because we cannot escape being drunk by drinking more. We have to wake up from this nightmare and like a computer that has frozen, it is time to reboot.

World Share Markets

To Each its own

Often, we tend to look at everything in isolation. The world we live in is a dynamic structure of inter-relationships. When the Science of Chaos was first exploding onto the scene, it yielded the image that the flap of a butterfly's wings in Asia could alter the weather patterns in the United States. It was realized that the smallest minor variations could produce starkly different results.

Being the globe-trotter that I was, it gave me a breadth of understanding that one can't get just sitting in one country. It was as if one was arguing with only yourself, for there was nobody there to argue a different point. Stepping outside the United States, gave me such an experience that it taught me something truly remarkable. That no matter what I look at, there will be a different cause and effect from country to country depending upon the translation of that market into the local currency of that nation. I began to see that currency is a language and that no matter who reads this report, whatever I have to say will be translated in the mind of the reader into the home currency for that is how we judge a profit or loss. If the Dow Jones Industrials were to double in price, Americans would cheer, but if that rally came at the expense of the dollar falling by 75%, you will find everyone else selling their holdings for in their mind, the Dow just went down.

Unfortunately, school has been only a means to perpetuate mankind's mistakes from one generation to the next. I see nothing of the real world in economics, just the same propaganda that causes more damage than good and places at risk our very survival. For all wars boil down to a economic reason. And the danger we face now is that the general world population has seen the global contagion and this creates the atmosphere of blame the other guy. When people lose their ability to survive, that is the time that war emerges. If there was to be a World War III, we have set in motion the root causes. This is why it is so important to force understanding upon those in charge for they know not what they do.

CURRENCY = SHARES IN THE POLITICAL STATE
BONDS = ISSUED BY GOVERNMENT ARE NOTHING MORE THAN A DERIVATIVE OPTION
SHARES = IN THE CORPORATE WORLD ARE A HEDGE AGAINST DOMESTIC INFLATION
GOLD = IS THE HEDGE AGAINST GOVERNMENT INSTABILITY

To understand the share/stock markets, we must look at them within the framework of their placement within the collective mind of society. We must understand that the rise and fall of a currency is based not upon supply and demand, nor even upon the trade surplus or deficit. Currency is an instrument that represents the total wealth of a nation. It is nothing more than a individual common stock share whose value will rise and fall dependent upon how the world believes and trusts in the management. Because we have a floating exchange rate, we are able to see the free movement of all capital and that is reflected within the price of a currency against all others.

When Soros became famous, he had a huge bet shorting the pound against the DMark. The general concensus was that the fixed rate of the pound to the Dmark was too high and thus, the world took a vote and the capital began to short the British pound. This was the voting power of the world, not just Soros. So what we see is that the value of a currency is no different than the value of a share. It is what the market and the people believe it is worth.

So what are government bonds? Well, as Adam Smith (1723-1790) rightly questioned in his Wealth of Nations (1776) why anyone would consider government debt quality when there was no record of any state ever paying off their debt, and had historically just defaulted? Even the first American Continental Congress defaulted on its debt.

Bonds are nothing more than a derivative - an option on the future. The price of US bonds between 1946 and 1981 fell 83%, since the prices declines as the rate of interest advances. Government debt was about as good as a long-term investment as buying a loaf of bread and stuffing it away because you think the price will eventually double. Unless it was frozen, when you go to get that loaf, you will find it is no longer salable.

Bonds are thus not money directly for the Government will not allow it to be used for collateral in most cases, even though it is a reserve form of currency between nations. It is nothing more than an option that will be worth a lot less in purchasing power when redeemed. So bonds are simply an option on the currency and you hope that the interest paid offset the depreciation in the value of the bond/currency for the duration it was held. Of course, buying government debt is the one bet you can make that is a guaranteed loss. It is only a question of how much capital you will lose.

Shares/stocks of private corporations reflect a hedge against inflation. Most stocks will only keep pace with inflation that is real, not manipulated statistics. Let us look at what has transpired since 1980.

1980:	DOW 1,000 -	Gold $875.00 -	Oil $40 -	British Pound $2.40
2009:	Dow 8,000 -	Gold $900.00 -	Oil $50 -	British Pound $1.45
	800%	102%	1.25%	-60.4%

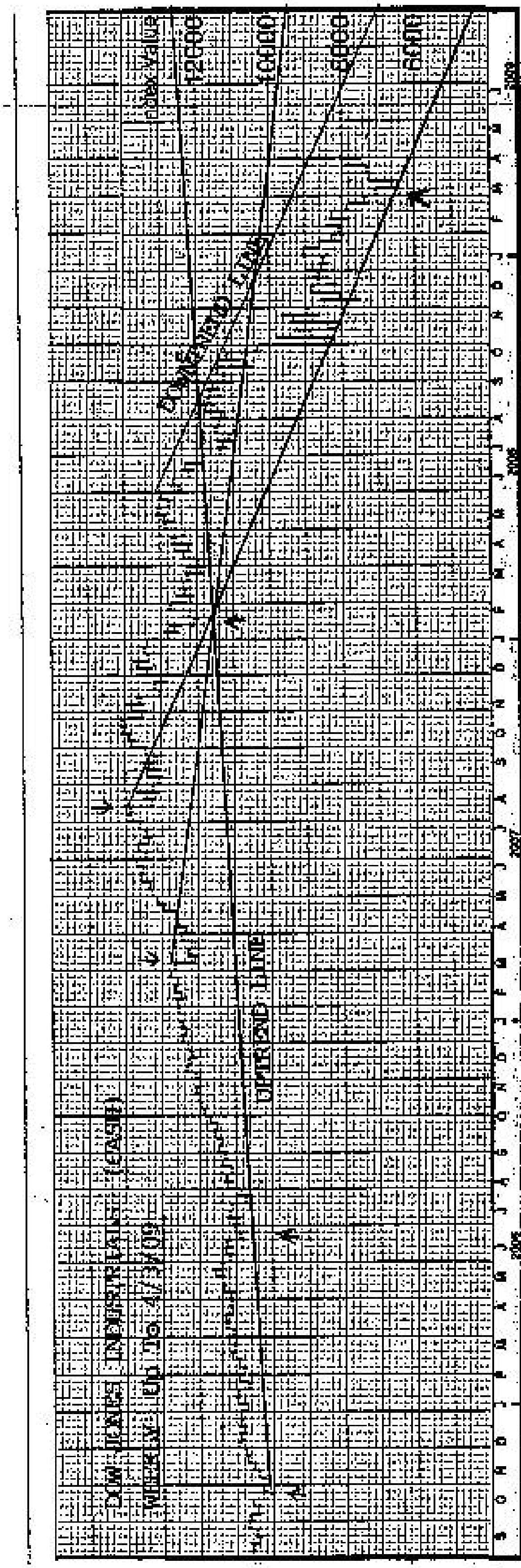
We can see that to the British, the Dow is 5,517 in pounds today compared to 416 pounds in 1980 making this 1 1326% gain. The American sees a 800% advance on the 1980 levels. What we are looking at is a hedge against inflation, the standard expectation of the future.

Gold is just starting to come into its own. Its role is obviously not the hedge against inflation as is stocks, but the hedge against the instability of government. For when all else fails, gold becomes the only store of wealth.

The Dow Jones Industrials bottomed in July 1932. They rose into 1937 as a hedge against inflation. Only the uneducated will tell you that stocks look ahead to the economic conditions. Roosevelt won and even the night of the elections he denied the rumor that he intended to confiscate gold as absurd. Of course, that was the first thing he did upon entering office. The Dow Jones Industrials rallied not on the absurd claims that confidence was returned and magically there was a expectation that the economy would turn. It was a hedge against the expected devaluation of the dollar, not that the economy would turn. Borrowing did not return. Gold was no longer an option and the decline in the value of the dollar would cause the tangible assets to rise in proportion to the decline in the dollar. The Dow became a hedge against inflation. It has retained that role.

The Dow Jones Industrials

Market Outlook



The Dow Jones Industrials have finally staged a minor rally going into the half-cycle turning point of April 19th, 2009. There was a sharp decline of nearly 30% for the April 19th turning point once again in the Financial stocks still reflecting that is is the main focus.

The low came on March 6th in line with the volatility model and its individual cycle that was 72.5 weeks from the major high.

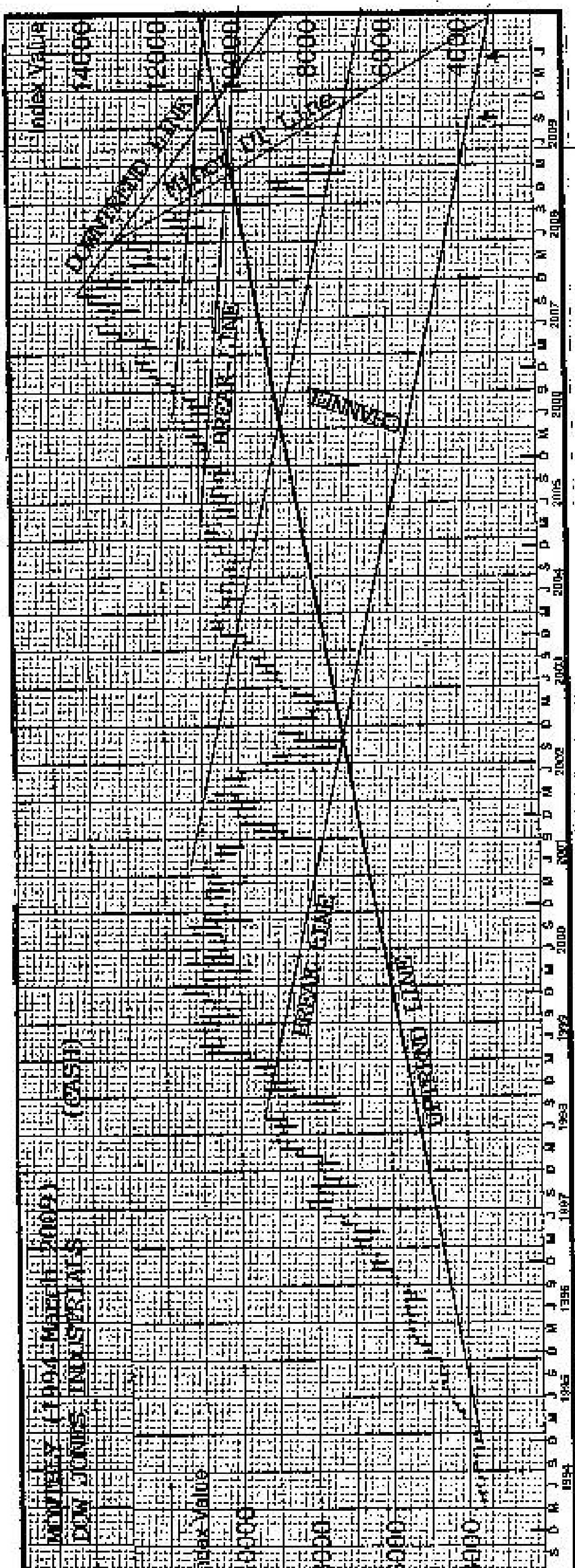
The low actual low came on a Friday, March 6th. The last rally high took place at about 9100 on Tuesday, January 6th. From high to law, there were 42 trading days.

From a technical analysis perspective, the low formed on the **Break-Line** constructed by taking the February high of 2007 and connecting this to the low of January 2008. It is was this perfect test that provided the technical buy signal for the rally. If you look at the two previous lows in September and November 2008, the market did in fact penetrate this projection intraday demonstrating it was not about to provide the law. Still, it did hold this **Break-Line** on a monthly closing basis signalling that there was no free-fall just yet.

The **Downtrend Line** of the short-term curve, stands at the 8100-8200 on the weekly level. Moving above this intraday will confirm we may a brief pause in the downtrend for now. It is not a signal that the low is in place.

The major **Uptrend Line** is the primary overhead technical resistance to any sustainable rally. Any rally that even went up to this line and tested it by bouncing-off, would signal a renewed downtrend.

Market Outlook



When we look at the monthly chart, we see that if look for resistance to any rally, the major bulk stands at the **Break=Line** from the 2007.15 (Feb '07) formation at around 10,000. The **Downtrend Line** remains at the 11,000-10,200 for the balance of 2009. The immediate resistance is provided by the key **Minor Downtrend Line** that stands at about 9200 in May of'09, 8800 in June 8400 in July, 8000 in August and 7800 by August. This is a key line to watch for it will not signal that a reversal has taken place if it is exceeded, just that the downtrend is subsiding near-term. The **Break-Line** standing above will be the real key resistance.

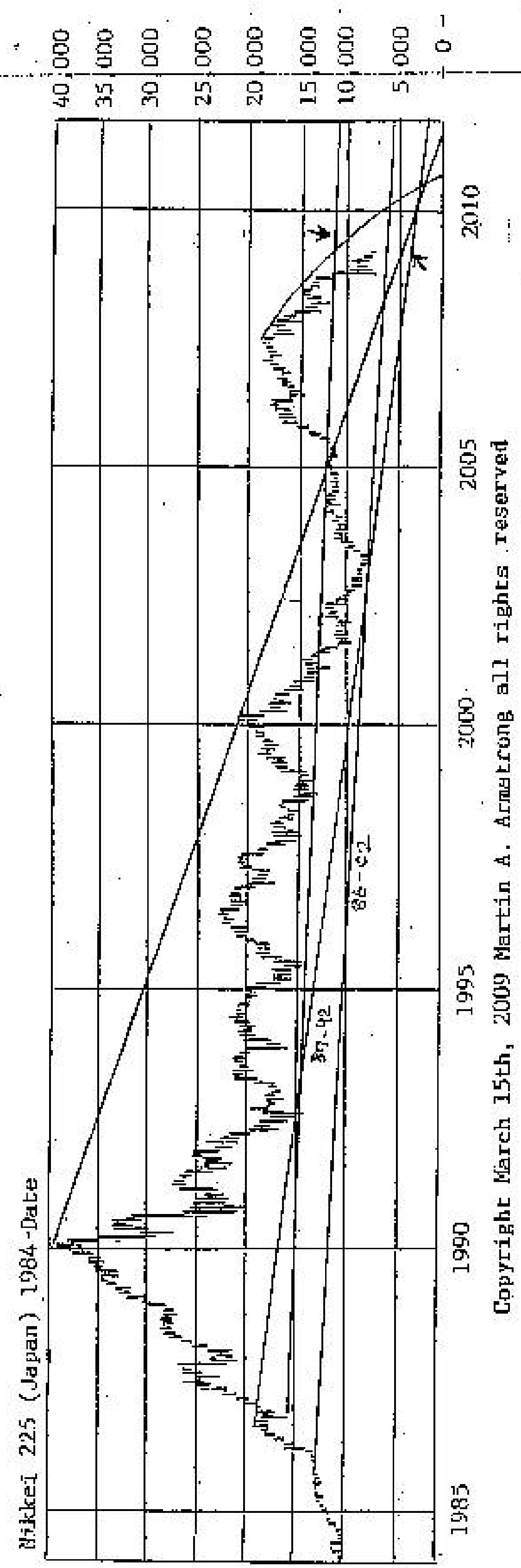
The top of the **CHANNEL** below that was constructed by taking a parallel from the **Breakl-Line** that is constructed from the 2000 Bubble Top period for the **NASDAQ**, still remains the key support. We did close inside the **CHANNEL** for Feb '09, and a second closing inside this on a monthly level will warn that the end is near.

If the Dow runs its full course of at least a 31 month decline (Pi= 3.141), then we could see the low as soon as Sept/Oct '09, or May/June'10 and if we still fail to see a close above 8,000 on a monthly basis, then we could still see 4,000 sooner than later. To negate an immediate decline we need to see a monthly closing on the Dow Industrials back above the 9030 level. Shy of that, the low is not yet in place.

The fact that March closed just back above the **Channel** top, will for now appear to rule out getting this over by June or July. If we still consolidate into July without a new break to new lows, this will be a sign of prolonging the trend down and indeed, we may be looking at the full 31 month decline (Pi * 10).

It does not appear that the Dow will remain in a bear market beyond this horizon and will rally to new highs as a hedge against inflation.

JAPAN – The Nikkei 225



The Japanese Share Market does not look good in the least. Aside from the fact that the economy and NIKKEI 225 peaked with the major high in the **Economic Confidence Model** 1989.95, it has been following this model like a bug follows the pretty blue bug light.

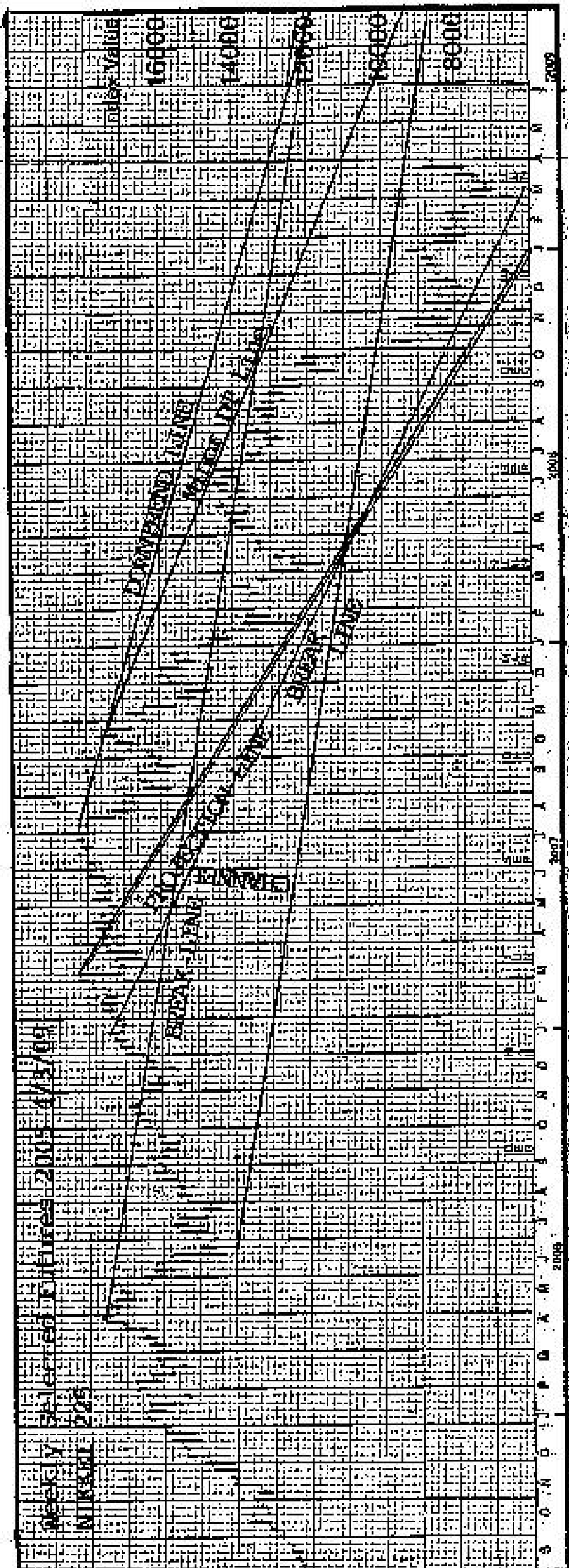
The Nikkei bottomed at firtst with the 2002.85 turning point. Yet the rally thereafter was a disaster. Once again, the Nikkei peaked right to the day with the model in February 2007. This is a reflection of the extreme Marxist style of control that the Japanese LDP has taken post-WWII suggesting that we may even see a fall in the LDP this time – a complete and bery dangerous meltdown.

The problem in Japan is that the economy has been run more-or-less in a very authoritative manner. It did allow private ownership, but its tax structure was modeled upon the US with not merely the extremely high rates, but it also took the same position of the US whereas the citizens were like slaves and whatever they earned over-seas was the property of the state. In other words, it was worldwide income.

The rest of the world taxes on the canon law idea that you pay as you use. So if you were not present in the country, you did not use the services and thus it would be unjust to tax you on income that was earned that had no use of state services. The US and Japa viewed you as property of the state and thus whatever you earn is really theirs.

This authoritative role carved out by the LDP is destroying the core economy. Clients in Japan suffered hundreds of billions of dolars in loss because the LDP ordered them not to hedge. By trying to prevent selling, thev screwed up the economy and have prolonged the collapse that should hav been over in 31 months. The state's efforts to control the economy failed.

Market Outlook



The primary target is still down at the 4,000 area. There is some support at at the 7,000 area but this has held now twice in Oct '08 and Mar '09. The monthly support scales down at 6,000, and 5,000, but the big support is way below the market at the 4,000 to 3,600 zone. Timing still appears to be in the fall perhaps in the September/October 2009 time frame. We also should find a possible low as late as January/February 2010. From an annualized model, the ideal low would be in 10 year from the major high in 1989 that would place it in the fall of '09.

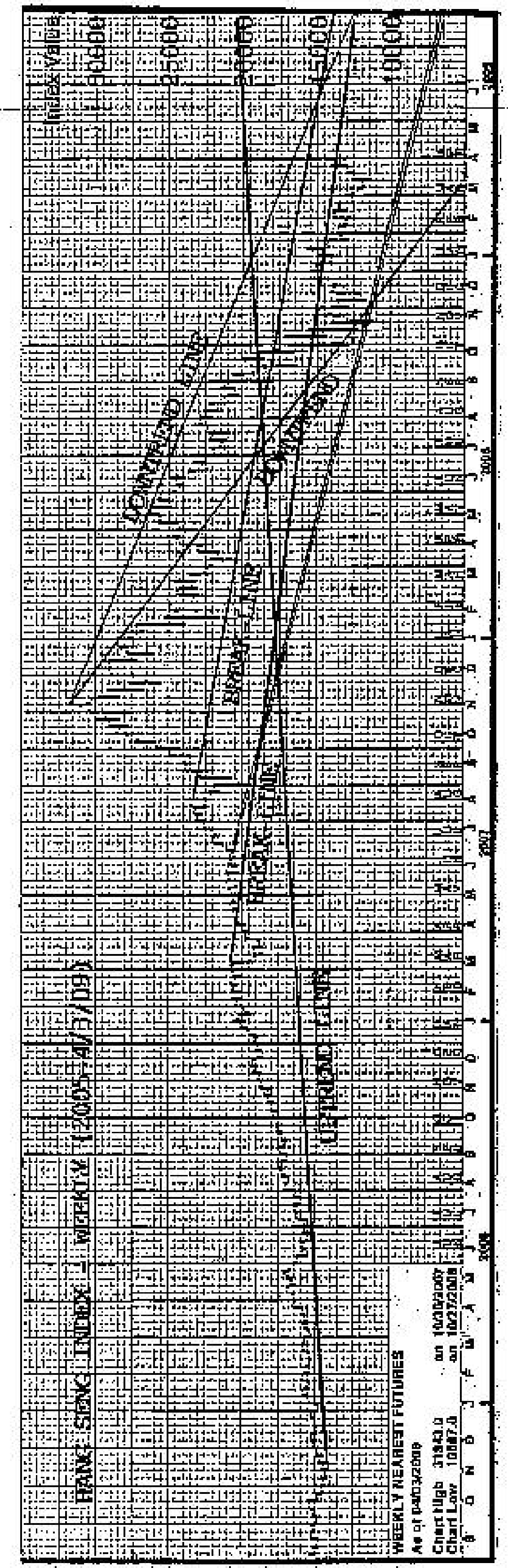
The weekly chart provided shows the main **Channel** that was constructed from the high of Apr. 2006 and tieing this to the low after 2007.15 in Aug '07 taking a parallel from the June '06 low. We have penetrated through this **Channel** and now its nottom has provided the initial resistance.

The **Break-Line** from the 2/07 high has provided a nice target for the lows. The **Projection Line** created tieing the 2/07 high to the 8/07 low has held on a close so far but it provides the key extreme target support that would lie at 2,000 by September 2009. This would be about a 95% drop whereas to match the US 1932 low the Nikkei bottom would have been 4145, so this may yet be seen. We are in full meltdown mode. It is the **Break-Line** of 2/07 that points to the 4,000 level by the Sept/Oct '09 time period.

We may be looking at the collapse of the political government in Japan. This is a very, very serious position. What will replace it, who knows, but it may be even closer to Marx that what we have with the autoritarian type of government currently. It may be reflected in a capital contraction that drives the yen above to new highs. This is not at bullish, but the last throws of a driving political state.

Hong Kong - Hang Seng Index

Market Outlook



The Hong Kong **Hang Seng** reached its peak on October 30th, 2007, at 31,943. So far, it jas fallen by 66% and although that low made on October 27th, 2008, from a timing perspective, we could see a 31 month decline into about May of 2010. However, the low that we have so far came in 52 weeks in line with the 51.6 week cycle.

Because of the timing for the low coming in line with the 51.6 week cycle we could have the major low in place if the Hang Seng can slip back above the **Break-Line**.

This appears to be in line with what we are seeing economically in that the capital flows may be shifting to China, displacing the West as the core economy. It would be ironic that if China resists the Marxist solutions, it will out-perform the West and shift the economy to China just as World War II shifted it from Europe to America.

The long-term support seems to be in the 7,000-8,000 range should a break to new lows take place. That is only possible if the Hang Seng fails to get back above the 15,000 resistance

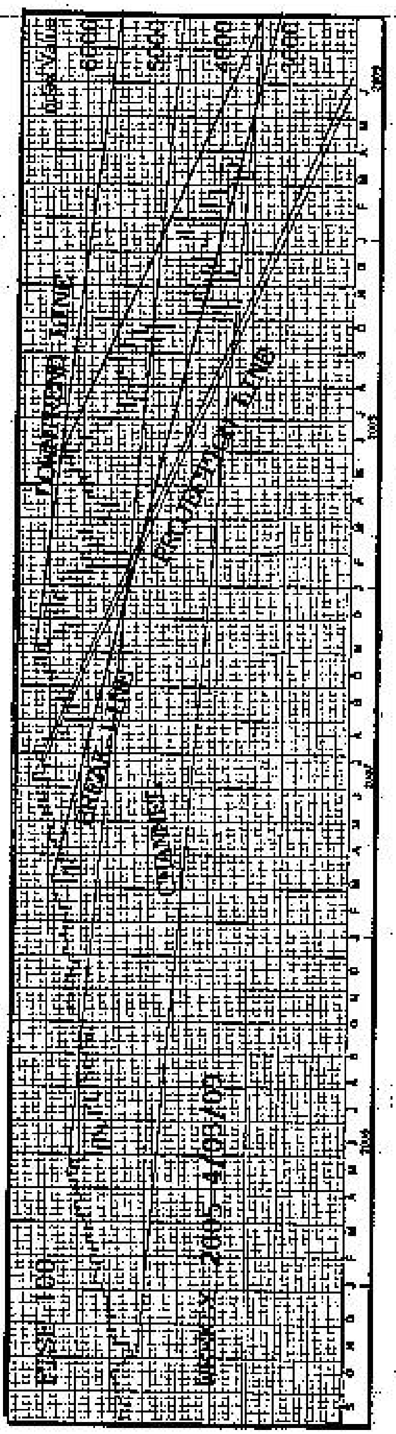
While we do not have a serious implosive collapse as we have seen in Japan, Once we see a break above the **UPTREND LINE** and it starts to provide future support, the bull market will be back under-way and we will see sharper new highs as assets and capital begin to be attracked to China as it was to America from Europe.

The **Break-Line** constructed from the high of February 26th, 2007 to the low of August 2007, provides us with another very near-term guide. This line needs to start providing support. If it does, then the low is in place. A collapse back benath it, with a close below it, will warn of possible new lows.

It will take a weekly close above 20,000 to see a reversal whereas a weekly close below 11,500 may signal new lows ahead.

London ~ FTSE 100 ~

Market Outlook



The FTSE 100 reached its peak on July 13th, 2007 in the middle of both Japan and the U.S. share markets.

Here we have a broad channel constracted from the high of April 2006 and connecting this to the low of January 2008. We have fallen into this Channel, but we have found support at its bottom. The top stands at 4600-4800 area and unless the FTSE can swing back above it, we may see a break to new lows by Jany/Feb 2010.

Despite the bearish economic outlook, it does appear that we could still see new highs in the FTSE in the years ahead. This may be due to the fact that the share market could perform the hedge against the inflation that is likely to appear on the horizon much as the Dow did coming from the 1932 low.

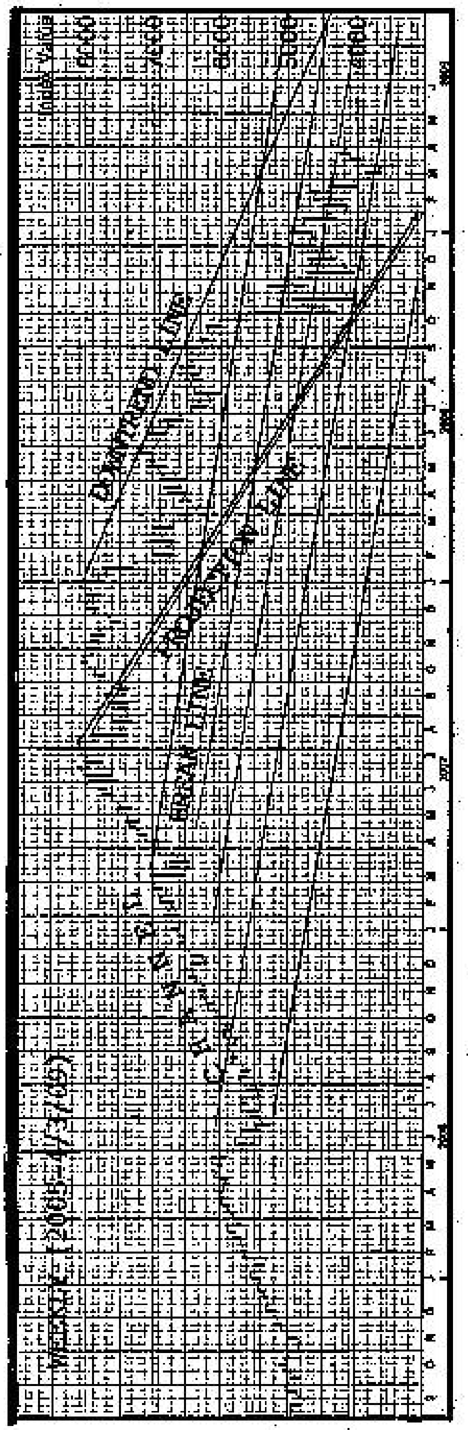
Until we see a weekly closing back above the 5500 level, new lows are still likely. The Projection Line may provide the guide to where the final low should form. This does point down sharply and shows that the extreme projection by January of 2010 would be around 2000.

If the British Government continues to follow the Marxist course of action, it will lose its capital attraction and we msy see even the over and under the counter markets begin to move back to Hong Kong.

It is curious that for many years the British economy separated from that of the main Continental Europe, it is worth a note that the high both in Germany and Britain came on July 13th, 2007. This is a serious issue for we are starting to see the first signs of regional capital flows.

A regional capital flow is when it is not just a single nation in trouble, but the entire region. Going after the so called tax shelter nations will have a serious drawback. The money held in hedge funds is largerly from off-shore accounts regardless of the tax issues. So the attack upon nations like Switzerland are also likely to cause major economic consequences that includes a massive divestiture of government debt. The Marxist philosophies that seem very attractive may now be the undoing altogether.

Deutscher Aktienindex (DAX)



DEUTSCHER AKTIENINDEX (DAX)

The DAX also reached its peak on July 13th, 2007 intraday. Here too we have dropped a bit more than 50%. A full drop for 31 months will place the low also in early 2010.

The **Downtrend Line** currently stands in the low 5,000 area. The main resistance stands at about the 6300 level and only a weekly close back above this level would suggest that the low might be in place.

The primary **Channel** that has acted like a magnet is formed from the **Break-Line** tieing the high of February 26th to the low of January 2008. Taking parallels off of this vital technical projection has in fact provided some very key ways to observe how this market is unfolding.

We do not have an isolated top as we do in the NASDAQ suggesting against that its is not the stock or share markets that have been the process of excess. That is debt and we are deluding ourselves to think the way to stop the debt crisis is to borrow more.

We have nearly a double top in the DAX and this strongly suggests that we should see new highs again and this too may be in the form of taking on a hedge against inflation and thus govenernment.

The extreme support if the DAX continues into a 31 months decline may place the major support in the 2000 area. Again, to reach this sort of level is more one of panic and confusion that plain old fashion economics.

Continued attacks upon the tax shelters may lead to a final selling spree to create that sort of low. Nevertheless, it may prove to be a very good buying opportunity if it unfolds.