



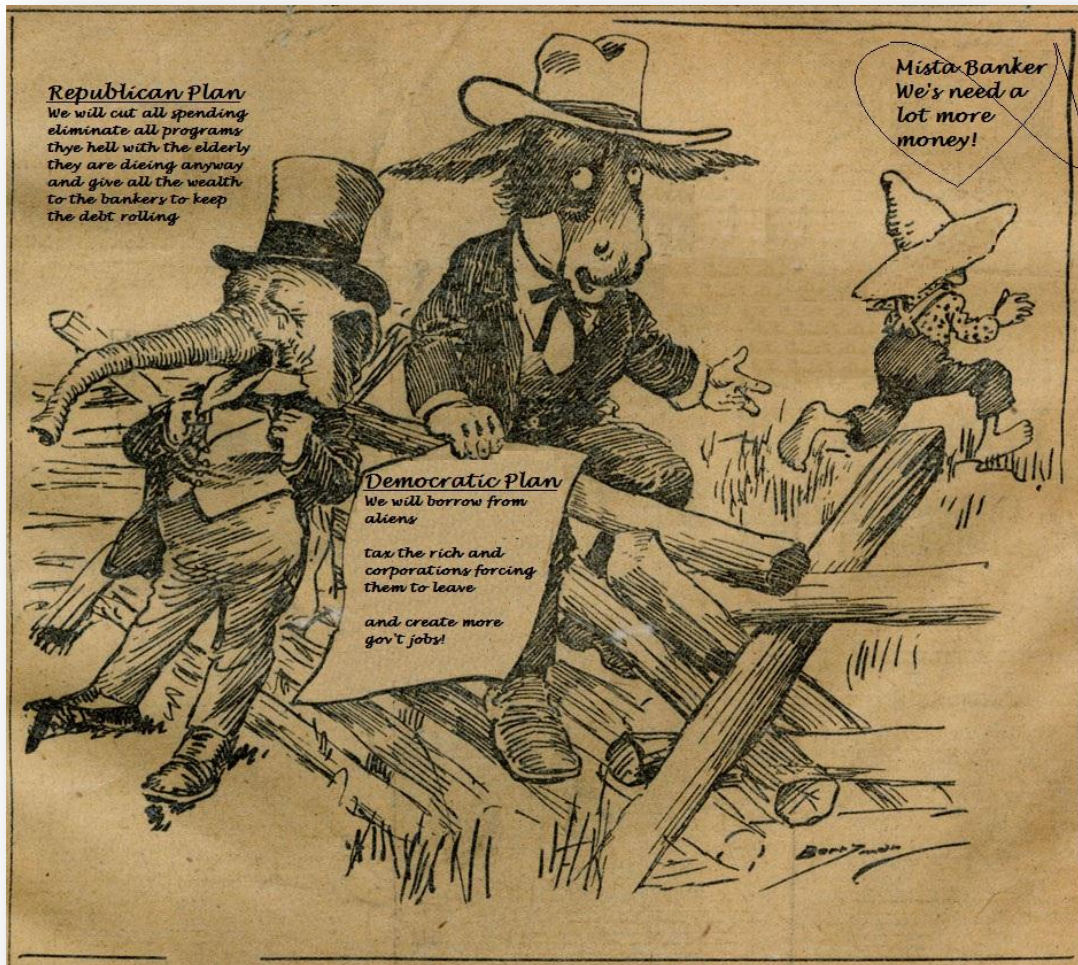
THE NEXT 4.3 YEARS
WE THE PEOPLE V THEM
BORROWING FROM THE RICH
TO KEEP SOCIALISM GOING



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BORROWING FROM THE RICH To KEEP SOCIALISM GOING



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former Chairman of Princeton Economics International, Ltd.

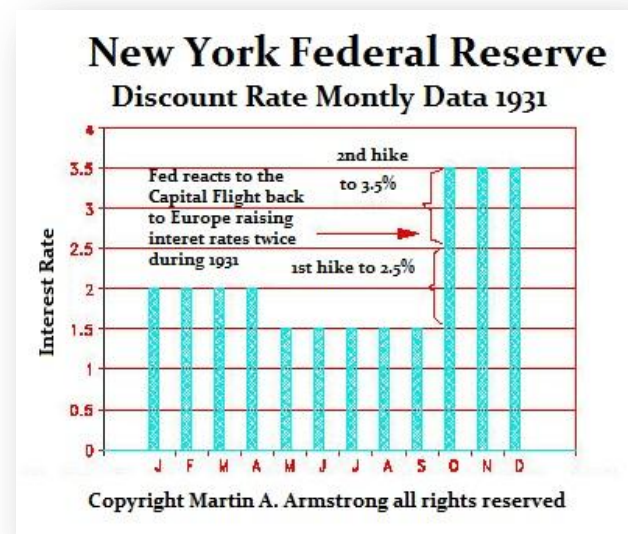
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JUST when you thought it couldn't get worse, surprise – **THE BEST IS YET TO COME!** Yes, the sentiment is going to change. But the change on the horizon for the next 4.3 years is going to be very different. We are entering a phase of the **Private Wave** where confidence in government sinks lower still. The irony of these types of moves is that the economic decline continues, but



the financial markets recover with a twist. Capital becomes leery of government debt and thus the private sector rebounds in the face of rising unemployment and worsening economic statistics. Here is a chart showing that during the Great Depression, notice that once FDR was elected and he adopted the policy of devaluing the dollar (confiscating gold), capital moved back to private assets and away from government debt instruments. The spread for **AAA** corporate debt bottomed in 1937 after peaking in 1932. This is when the Dow Jones Industrials rose from the 1932 low to the 1937 high. This is HOW capital shifts back and forth between **PRIVATE** and **PUBLIC** assets based upon **CONFIDENCE**. Hence the name: **Economic Confidence Model™**.

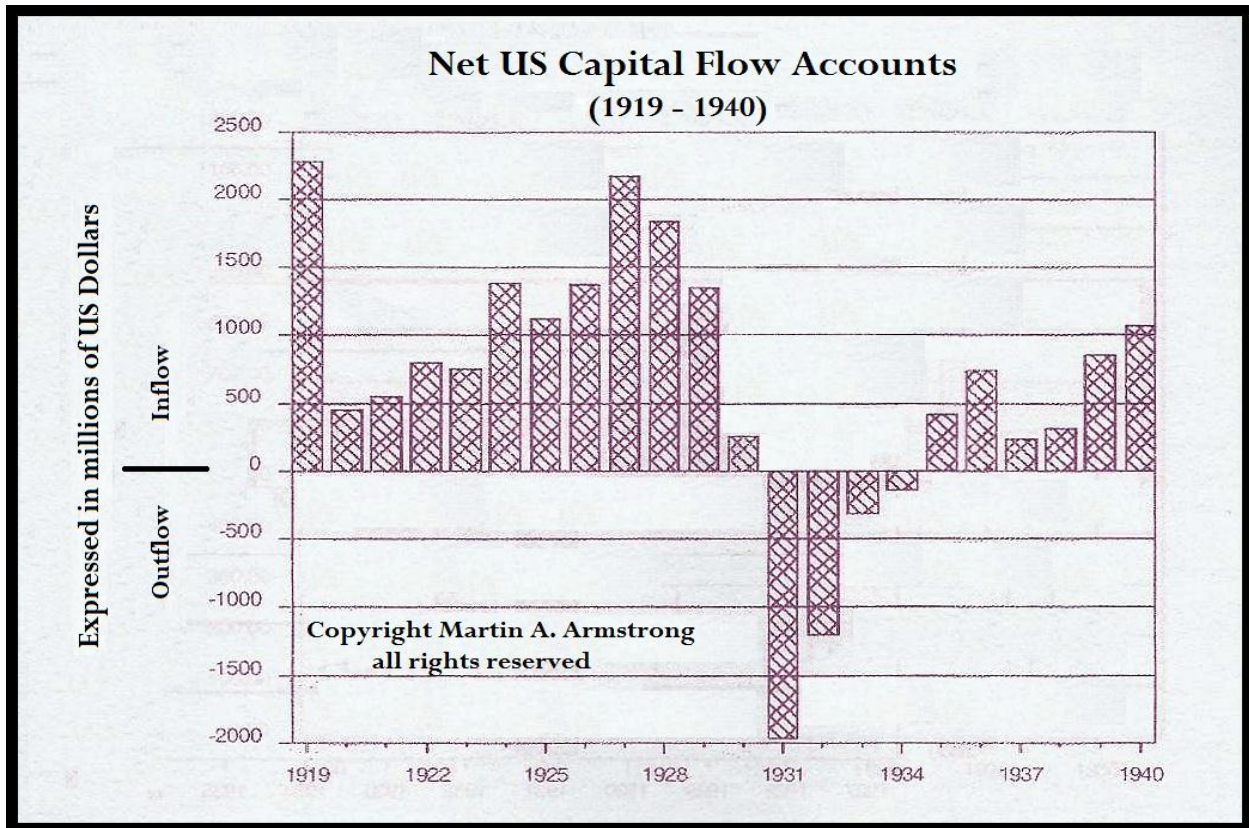
The importance of really understanding the Great Depression stems from the fact it was a **Sovereign Debt Crisis**. Unfortunately, the vast majority of the accounts of the Great Depression were domestic oriented influenced by the socialists who had been rising on the political scene even since the 1880s after the 1870s high and Marx's Communist Manifesto in appearance 1848. They seized the facts and manipulated history for political purposes. Just as the environmentalists used a natural warming cycle in the sun to claim man alone has caused global warming ignoring the natural 300 year cycle in the energy output of the sun to further their agenda. What about the previous Ice Ages that were followed by global warming without cars? The socialists re-wrote history to support their cause.





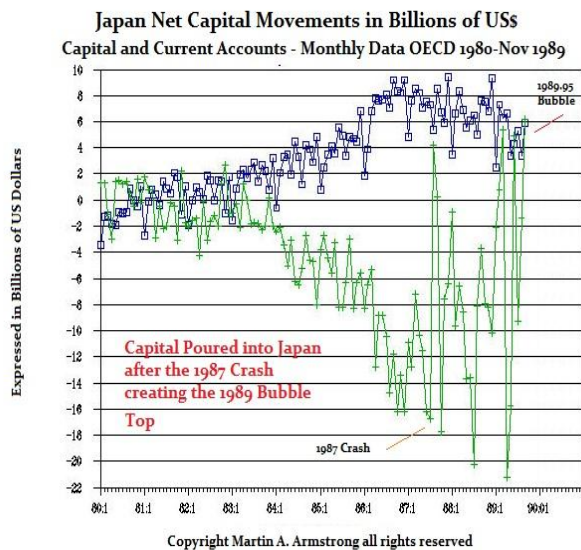
The socialists put everything on the back of shoeshine boys, speculators, brokers, small margins, and the greed of corporations. They refuse to discuss the sovereign of defaults and how a gold standard created deflation just as the Euro is doing to Greece right now. This had the adverse effect of creating theories with a myopic domestic view that still confuse us now. I believe much of our trouble today has arisen from this myopic account of the Great Depression. The purpose of civilization is to provide benefit to the people. Why come together if the only benefit is to be taxed? The purpose of civilization is the coming together of people to create a society. For example, people create a local fire department to be shared by all as other common services like education. We create roads so we can interact and trade. What we cannot do is operate under tyranny that removes the benefit of creating a society transforming us into property of government for their political benefit as if we were people being used for energy as in the movie series the Matrix.

Above is a chart showing the major facts that have been distorted. In 1927, the Fed cut the interest rates from 4% to 3.5% trying to deflect the capital inflows to the USA that were causing a shortage of capital in Europe, which eventually led to the 1931 **Sovereign Debt Default**. The Fed was criticized claiming this cut inspired the bull market thereafter. That is nonsense. The Fed raised rates a few months later in early 1928 and kept going up to 6% by the peak. In 1931, the Fed raised interest rates twice in October that year. The critics then argued this caused the stock market to decline; again all nonsense. This rate hike was in response to a massive capital outflow from the United States that had the effect of lowering US asset values in terms of foreign currency the same as took place following 1987. The rate hike was trying to keep capital here. It failed. We can see that up until 1931, there was a normal bear market with



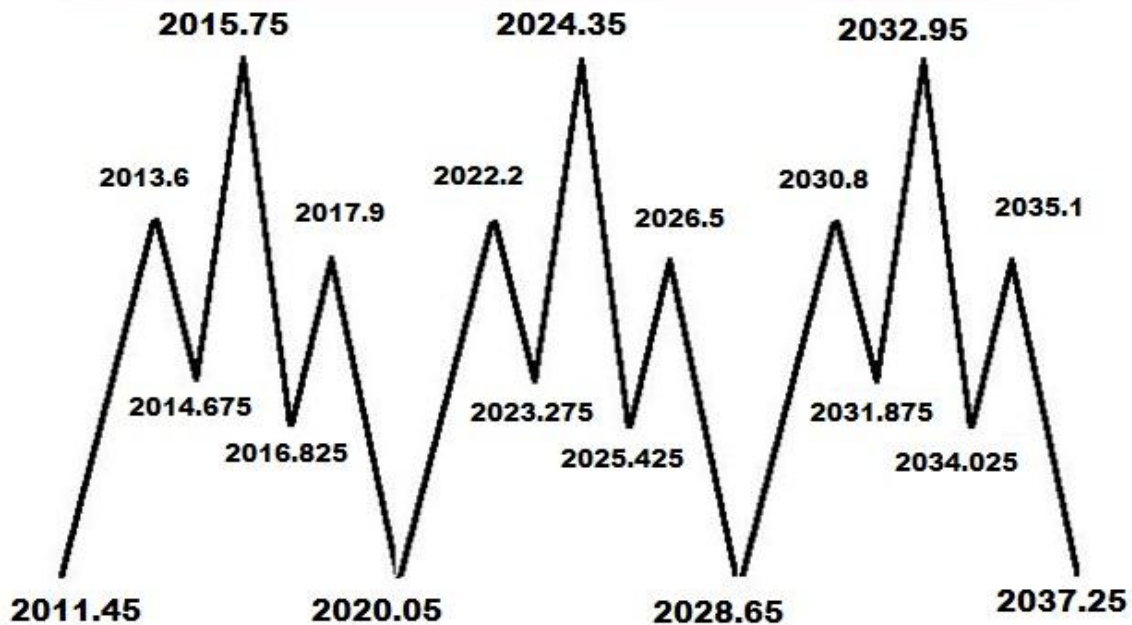
a 62% decline. This has taken place in plenty of markets and does not by itself suggest a depression. The speculation enabled the socialists to blame the greed of investors while ignoring the default of everyone but France. Even Britain went into a moratorium suspending all debt payments for a brief while.

Here is the picture of what was really taking place. There was a double-barrel shotgun assault. First, the foreign government debt had been sold in small amounts to the average person. As those defaults took place, this forced those depositors to withdraw their remaining cash just to live. This contributed to the



massive runs on the banks. Secondly, the sovereign defaults in Europe caused Europeans to need cash and withdrew what they had tucked away in the USA markets. International capital flows are the key for they present the wildcard that domestic analysts rarely see. There was a capital flow shift with the 1987 Crash that then led capital to pour into Japan for the peak in the model 1989.95 in December that year. Those who ignore the international capital flows are asking to be wiped out for their stupidity.

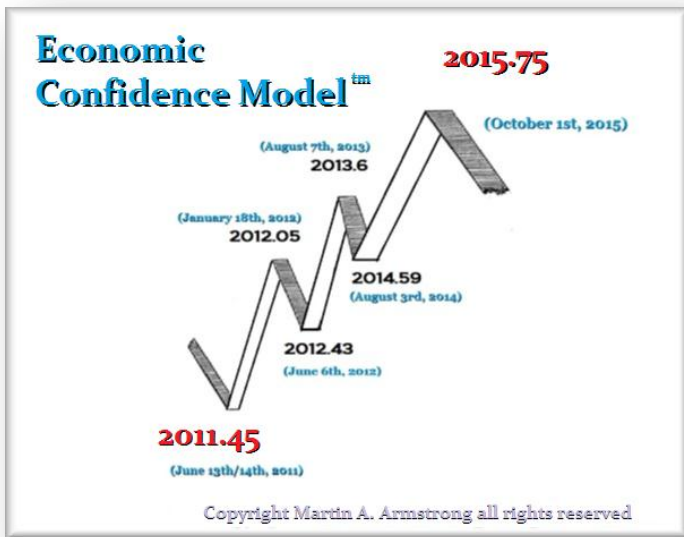
Economic Confidence Model™
8.6 Year Global Business Cycle



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We have to expand our view of markets to a global one. Capital **CONCENTRATES** on a global scale. Such capital **CONCENTRATIONS** create the real bubbles like 1929 in the USA and 1989 in Tokyo for the added foreign capital caused at least the doubling in local market values. **ONLY** by looking at these aspects on a global perspective can we hope to comprehend what will really unfold tomorrow. Our greatest fault is our domestic myopic perspective. Universities still do not teach international capital flows or currency hedging and we are now into the floating exchange rate monetary system for 40 years. Perhaps when we hit 51.6 years in 2023, they will say oh shit, maybe we should be teaching this stuff? I have offers to set up such classes all overseas. Why? America still doesn't get it while outside the USA everyone deals with currencies every day. If I were to agree to set up a school of practical economics, it won't in in America. Goldman Sachs would run to the government and complain I teaching others how to beat them and manipulate the world economy.

The trend is changing. A friend in Congress even told me that the people who always just said don't worry, be happy, for it always works itself out mysteriously, are starting to admit this is just not working. The Republicans refuse to raise taxes and seem to think they can somehow force the economy back into a bull market by cutting spending, are ignoring the 800 pound gorilla in the room – the debt. You can cut spending all day, and I agree raising taxes will lower employment. But you are still not addressing the **EXPORTATION** of interest to foreign holders of US debt. So, the bottom line, for every penny cut in the debt for social spending will be **EXPORTED** for interest to carry the debt. The socialists yell about the rich



not paying their fair share. What they should be looking at is they are borrowing from the “rich aliens” and paying them interest perpetually. This is the greatest **TRANSFER** of wealth that ever existed making the class warfare irrelevant. It’s the debt stupid!

As we look ahead for the next 4.3 years, things are going to get much more confusing. The Sovereign Debt crisis will continue to percolate until we reach a maximum brew. There are so many trends converging it’s crazy. Already Texas is in the worst

drought since the Dust Bowl and this has just got started. Sorry, it’s not global warming. It is a natural 7 year drought cycle that has existed even from Biblical time (*i.e. Joseph warns the Pharaoh of 7 years of plenty followed by a 7 year drought*). This will keep food prices rising and the peak is not due until 2014. Politics will grow ever more unstable and a third party element will rise by 2016. There is a risk of a decline in gold into early 2012. This will be suggested by a year-end close below \$1423. To create a sustainable correction, gold would have to close below \$1337 on a monthly basis. The same number in silver is to be found at \$26.40. A year-end closing below \$30.90 will also signal a retest of support in early 2012.



Oct/Nov is shaping up to be critical periods in a lot of markets. This will be true in metals as well as currencies. In the S&P 500 Nearest Futures, we need a monthly close above 1333 to signal a run at new highs. Keep in mind, this shift from public to private assets. The US share market by **NO MEANS** was bubble top. That may arrive in 2016, but it is not now. The near double top formation in the S&P 500

differs from that of the DOW Industrials and is similar in nature to the patterns in Brazil and India. This is a major indicator that we do **NOT** have a top in place and we will see new highs once again even in the face of rising unemployment from public sector job layoffs.

The Seven Year Drought Cycle

The agriculturals are all poised to generally double in price during this cycle. They will put tremendous pressure on Africa and the Middle East by famine and this will fuel further political unrest. So new highs are on the horizon for wheat, corn, oats, and soybean complex just to mention a few.

The DAX

The DAX appears also poised to make new highs. This will take place even if the Euro cracks for it will perform like the Dow did in 1934. The devaluation of the dollar caused stocks to rise in proportion. Here this will also be a flight from public to private. Only a monthly closing below 6736 would suggest some follow-through to retest support.

Understanding Capital Flows is the Key

When the model accurately forecast the collapse of Russia that is when the CIA came and wanted me to build the model for them. They acknowledged that **CAPITAL FLOW ANALYSIS** that we developed at Princeton Economics was a new technology and important even to understand from a geopolitical perspective. The model accurately predicted the Lebanon War, the Iran-Iraq War and probably even 911. How? It turned out that someone has knowledge of the invasion and as such they move money accordingly. This was being picked up by our computer is monitoring global capital flows. It could not tell you WHO or precisely WHY, just that the shit would hit the fan.

It is absolutely critical to understand **International Capital Flows**. The Dow rose between 1932 and 1937 and unemployment exploded to 25% going into 1935, the **Dust Bowl** tore the economy apart, and the economy was far from booming. There was a lift due to the devaluation of the dollar. This is also the famous bank holiday. Much of the news between 1932 and 1937 was **BEARISH**. Yet the stock market rallied as a **HEDGE AGAINST** untrustworthy public debt. Even the city of Detroit suspended all payment on its debt. It made good in 1963 with the help of inflation. We face similar crisis in the state and local governments. Unemployment will rise as the local governments (**WHO CANNOT PRINT MONEY LIKE THE FEDS NOR BORROW FROM THEM**) are forced into reality. Greece **MUST** default or it will go into revolution. The lesson from the Great Depression is that the gold standard created DEFLATION because you could not increase the amount of gold in proportion to economic and population growth. The EURO is doing the same thing. By holding Greece to the Euro, their obligations are rising in REAL value terms forcing DEFLATION upon the country. The gold standard was abandoned (defaults) in 1931 and that was the key. **This is a battle between the investment bankers and the people. The debts have to be devalued or we will be looking a massive civil unrest by 2016. It is time to make a choice. It is them against us! Stop taking advice from the banking Primary Dealers for they have a vested interest in bankrupting society for their gain! Julius Caesar understood this. Are we just brain-dead?**