

"It's Just Time"

The Decline & Fall of the United States?
The Global Financial System?
Or Capitalism?

2007.15

(Feb. 27, 2007)

Or is it the

Monetary System?

2009.3

(Mar 19, 2009)

What Now?

2008.225

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

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Dedicated to:

Nikolai Dmyitriyevich Kondratieff
(1892 - 1938)

Who was imprisoned & executed for his
daring to explore Economic-Political Cycles

and

my parents Martin & Ida
who inspired me with history
and the fortitude to explore

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Prologue

The object of this treatise is to demonstrate that there is substance behind the old adage that "history repeats." Everything in nature has in recent times been discovered to function mathematically conforming to what fractal geometry, created by Benoit Mandelbrot, can reveal. During the 1970s, I discovered that there was a very strange hidden regularity in price movements from day trading back in cash market days. From my Translux (paper-ticker-tape) I could plot each and every trade tick-by-tick, and even relate that to volume (an ability lost with computer screens). I began to notice that the overall pattern that unfolded intraday, would replicate itself onto the daily level, eventually appearing in the weekly level and then at a higher level of monthly activity. These patterns were extreme movements that had appeared leading up to major changes in trends. I explained to clients eventually that for any pattern based upon cyclical events to be valid, it had to be reflected throughout time on all levels of activity. In other words, if there was a cycle of a unit of 8.6 intervals intraday, it must also exist on the daily, weekly, monthly, yearly, decade, and century levels of time.

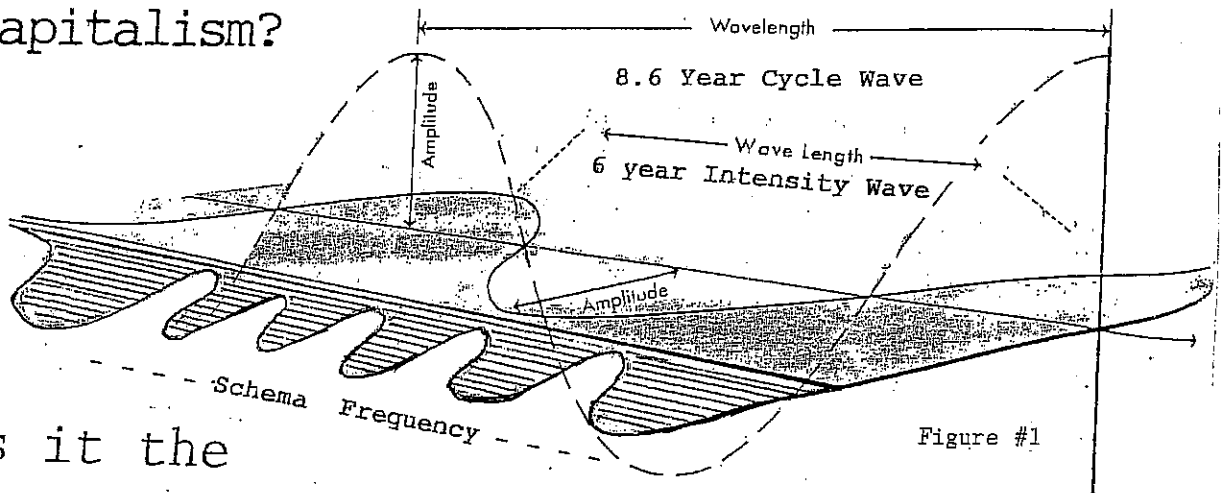
When I later became familiar with Mandelbrot's work, I realized that what he had observed within nature, I was looking at within human behavior. I began to see that there was still more to this fascinating fractal geometry arising from what truly amounted to geophysics. There were two distinct aspects to the causes behind what became manifest in why "history repeats." First, there was the clear observation that there were patterns of human behavior that repeated. This pattern based activity led to the fields of technical analysis and pattern recognition such as the work of Frost and Prechter known as Elliott Wave analysis. Both sought to observe patterns and then project the future from the past assuming that there was a repetition of patterns. Secondly, there was a cyclical wave of events irrespective of whether it created a low or a high, boom or bust. Where fractal geometry could mathematically explain how something would unfold, there was a separate and distinct element to this hidden order than can be best described as the Geometry of Time that is the mathematical realization of Cyclical Analysis.

In this treatise, I am concerned with this Geometry of Time and how through Cyclical Analysis it manifests within "when" events are likely to unfold leaving for another day the fractal geometry of pattern recognition that travels within the same wave structure like DNA providing a hidden code as to the patterns that should develop. The genius of Mandelbrot always arises from out of the mainstream because like Socrates who tried to prove the Oracle of Delphi wrong in its prognostication that he was the smartest of all Greeks, just sometimes it takes the one looking into the forum from the outside to see what a consensus cannot.

What I hope to accomplish is to open the eyes to the true hidden order that governs all life, including ourselves. We must become aware of both time and the form of structure. We must break-away from linear thought and to see the world that is waiting to be discovered that surrounds everything. My mother always said to me that there was a "time and place for everything." Her explanation of the world to me was so very true. We must reject the idea that man needs to be controlled. Freedom is a divine gift that no man has the right to rob from another to impose his personal views be they political or religious. If we understand human nature and that there will always be the booms and busts for they are the engine of progress forcing new advances that will not appear, but for necessity, then we can survive and expand our comprehension of time and space. We must not destroy ourselves in the thirst to punish that what we do not understand. Civilization is on the line. So is the risk of war. "It is just time!" We must open our mind to see what our eyes cannot but what our instincts tells us exists.

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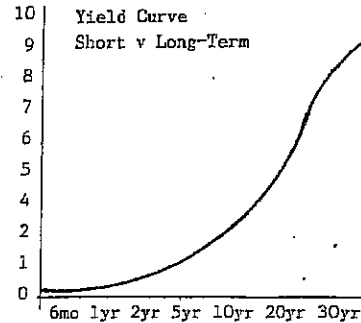
The latest Financial Crisis of 2007/2008 is but a manifestation of events set in motion years ago that are now unfolding precisely according to time. The question of how to deal with it, is a serious issue. Whether this is a natural consequence of the Business Cycle, is another important question to be resolved. For the one unifying core element of a financial crisis is that nothing ever changes, only the players and the instruments.

The culprit is not merely the mortgage market. Neither is it exclusively Wall Street and the Banks. It is a combination of blame that squarely rests both upon the Public and Private sectors. Are we to be so shortsighted that we will now just destroy our entire political economy in quest of a quick fix? Are we to yield to the rantings of Karl Marx and his hatred of the "rich" to blame the high salaries on Wall Street when that has nothing to do with current events anymore than huge salaries to sports figures? If we do not honestly examine the causes, we will in fact destroy the Blessings of Liberty for our posterity depriving them of freedom merely to use current events as an excuse to punish the rich as Marx espoused. We face major problems. The Dow Jones could fall to 3,500 if Confidence swings to the government, or it could go through a Phase-Transition and reach 35,000 if the swing is back to the private sector. Gold is likely to go to \$2,500 or jump beyond even \$5,000. We are staring into a future where the political-economy and capitalism are at risk in a merky cloud of uncertainty articulated only by George Orwell and Ayn Rand. There are those who reject history as offering any knowledge. Perhaps these are the same people whose parent told them not to stick their finger into the flame of a candle because it would burn, yet they did it anyway rejecting the lessons of history. It is times like the present, where economic pain produces people like Hitler and Lenin. Capitalism is subject to booms and busts, simply because that is the nature of mankind.

Confidence Remains the Key

Confidence has always been the determining factor. If the people trust the state, the flight to quality will run to bonds fleeing the private sector. But if that level of confidence should swing the other way for fear of an abundant supply of bonds, the swing could be violent in the opposite direction toward hyper-inflation. It is the yield-curve that provides clues to the swing between Public & Private confidence.

Far too often, the majority thinks only in a linear fashion, rather than dynamic. If there is a financial crisis, capital decides where to hide. If people are not concerned about the state going into default, they will sell the tangible assets and buy the short-term debt of the state. This becomes self-evident by the yield-curve (short vs long-term interest rates). As capital flees to quality, they will buy the shortest government debt driving the yield-curve into a sharp steep angle. Short-term rates move toward zero, but the long-term rates may remain the same or even rise. What is not commonly understood, is that if the pendulum can swing back toward the Private Confidence that causes the opposite effects - sharp rise in asset values in direct proportion to the decline in the purchasing power of the currency. The German Hyper-Inflation of 1922-23 was the collapse of the Weimar Republic, which was a sympathetic revolution of workers who declared a Republic November 9th, 1918 in the aftermath of the Russian Revolution of 1917. The German hyper-inflation was the extreme case, and not really in the cards. Nevertheless, the yield-curve steepens for now with short-term rates dropping below 1%. However, last year, \$400 billion in new debt came to the market. This year, it may be more than \$1 trillion.



People may think the Government is in control. That is far from the truth. The Keynesian model suggested that deflation can be moderated by government deficit spending. But Keynes was living in a gold standard era. Today, the deficit spending is chronic, and part of the problem. Increasing the spending to offset the decline works in theory if money is created. But what we are doing is borrowing, taking money out of the system and merely redistributing. We have all heard that China has been a big buyer of US debt. Some argue they need to support the US economy to keep their exports flowing. However, if the economic decline is spreading like a contagion around the world, we may not be able to count on foreign buyers to stimulate the domestic economy. Economic turmoil is like war, and acts like a contagion spreading globally. What happens if the Chinese Government faces rebellion due to economics? Suddenly, the notion of the bailout does not work. We end up with massive draining of cash from the domestic economy, or a collapse in Public Confidence that swings toward Private.

There are solutions that are viable to mitigate the disaster. But the longer we ignore the "real" world solutions and trends, the greater the disaster will become. It is indeed, the Biblical story of Joseph who warns of 7 years of drought. Listen, and we can survive. Ignore the lessons of the past, and it will be disaster. If the confidence swings back to the Private Sector and foreign investors dry-up, the yield-curve steepens exponentially. Suddenly, the market sees \$1 trillion in bonds and the yield-curve rises sharply. If Public Confidence collapses, even short-term rates will explode upward. If you believed the Fed could still stimulate the economy by lowering interest rates, think again. Excessive borrowing defeats that premise and runs the risk of exposing the lack of economic control. The Keynesian theory has been so abused, it is like becoming immune to anti-biotics that they no longer work. It is time for a serious overhaul of the system. If we continue down this road, we are flirting with complete disaster staring straight at tens of trillions coming due in entitlements. We cannot bailout the banks. We must buy the debt, put it into a public fund, and sell shares allowing debts to be reorganized. It is the nation we need to save - not the banks! We need real "disinterest" to govern as the Founders intended. Where is our modern-day Cincinnatus?

The Keynesian Theory

John Maynard Keynes (1883-1946) was a British economist. He worked in the British Treasury between 1915 and 1919. His first work won world attention in 1919 - *The Economic Consequences of the Peace*. Keynes objected to the reparations imposed by the Allies upon the defeated Central Powers (namely Germany) after World War I, that ended in 1918. Indeed, the reparations is what set the stage for the German Hyper-Inflation 1922-1923 and the later rise of Adolf Hitler, by the severe economic suppression created by the payments. Keynes followed this first work with a series of books and essays including *A Tract on Monetary Reform* in 1923, *The End of Laissez Faire* in 1926, and *A Treatise on Money* in 1930. He became a government adviser and a director of the Bank of England in 1941.

Nevertheless, what Keynes is truly remembered for is his *General Theory of Employment, Interest and Money* published in 1936. No doubt, this work has effected most people's lives today, although it should be noted, not even Keynes espoused the results we now face. Keynes established Macroeconomics with this work that was the birth of looking at the economy as a whole that included the total production, overall employment levels (concept of unemployment as % of whole), and the general price levels tracking inflation/deflation.

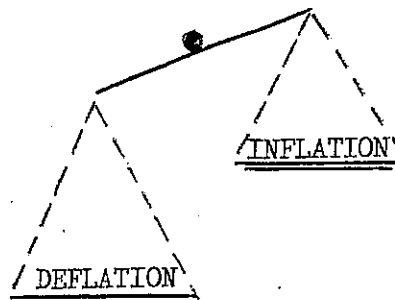
We must keep in mind that Keynes wrote this work in the age of a gold standard. He did not, and could not, conceive of the wholesale floating exchange rate system that we have today. The concept was too abstract at that time. We must also not forget that Keynes worked in Government, and thus would have had a natural bias toward such service. His theory so deeply embraced by world governments today, was that governments should use "fiscal policy" established by taxes and spending programs, to control and stabilize the economy. He argued that the overall level of economic activity depends upon the "effective demand" he defined as total spending by government, businesses, and individuals, (GNP Gross National Product).

Keynes viewed the cause of the Great Depression in a rather linear manner. He believed that the Great Depression took place as a result of a drop in effective demand. He then postulated that during such periods of economic depression, it was the duty of the government to increase its spending while cutting taxes, or to do them individually, in order to stimulate the economy. He acknowledged that this would create a budget "deficit" and was contrary to Laissez Faire (leave the market forces to sort it out). He advocated that deficit spending at such a time would stimulate the economy producing higher levels of economic activity that included investment and nongovernmental spending to achieve full employment. This theory was eagerly adopted by both sides of Government, conservative and socialist, for it increased the executive powers and cast the political state as a new savior of the people and give just cause for public election.

The problem with the Keynesian Model, is the same with Marx - it assumes some role as a benevolent dictator exempt from the self-interests that drives the entire economy as explained by Adam Smith (1723-1790) in his *Wealth of Nations*. Once the theory created a role for the government to justify deficit spending, it became like the addicted to drugs. I once had a serious meeting with Dick Army on Capital Hill about the Flat Tax. I explained that the real problem was the income tax and that we needed to return to a consumption tax model first established by the Founders. He rightly pointed out, that to support a retail sales tax would not happen because the fear would be the income tax would not be abolished and then both taxes would be in place. He is correct. Once the deficit spending took place, it was used every year for political agenda, not economic stimulation. The Chronic deficits became the core problem. This is the Paradox of Solution - today's quick fix becomes the problem for the next cycle. No doubt, we are about to make the same mistake again!

FALLACY of Inflation

Before we can even begin, there are four great fallacies that must be understood because we cannot deal with reality until these false beliefs are disposed of. The first fallacy is the misconception of "inflation." Most economists define this as the rise in the price of goods and services. This is dead wrong!



If you are worried about crashing your car, you buy accident insurance. If you are worried about your house burning down, you buy fire insurance. If you are worried about someone taking your valuables, you buy theft insurance. But if you are worried about dying, you buy "life" insurance? The reason they do not sell "death" insurance is because most people are not comfortable buying "death" insurance and tell the salesman they are not ready to die. To increase sales, they changed the label to its opposite, creating the same deception.

Inflation is not the rise in the goods and services in terms of dollars when it is throughout the entire economy. An isolated incidence because all the oranges were destroyed in a storm, is "inflation" tied to the supply and demand and can be traced to that event. However, that narrow definition is extended to shift the blame from the government to the private sector. When everything is rising in price, it is really the decline in the value of the currency from a purchasing power perspective. By changing the label, they shift the blame. So already we are hearing that the blame is the "greed of Wall Street" that immediately exonerates the government itself. If they are not the cause, what good would be served by looking at government? None, of course! A systemic rise in prices is caused by a decline in the purchasing power of the currency - not the rise in the price of goods and services. This crisis is effecting the underlying systemic inflationary pressures rather than the rise of prices and services due to external reasons. Deflation and Inflation are sitting on opposite sides of the scale. To deflate the value of the currency causes a rise in the costs of goods and services. To increase the value of a currency causes a deflationary effect in the prices of goods and services. This is the reality of and financial system.

THE FALLACY of Money Supply

The idea that the Government controls the money supply is absurd. The only thing that the Government can control is the physical money supply. Beyond that, money is created by the private sector (1) through leverage, and (2) by the very nature of the floating exchange rate system. It is not difficult to realize that if you deposit \$1,000 in a bank and the bank lends it to another party, both will show the \$1,000. If you now leverage that through derivatives, you can create a multitude of \$1,000 assets.

The far more complex reality of the money supply is the electronic money supply that is created by capital flows and banks. If you have a building and sell it for \$1 million to another citizen, the money supply is not effected. However, if you sell that same building to a European, something changes. The European will bring euros, they will be converted without restriction by a bank into dollars, and now that \$1 million is given to you for the building. You now have \$1 million to spend domestically that did not previously exist. Under a floating exchange rate, money is created by the private sector and no central bank can prevent it. If they put restrictions upon investment and capital flows, they in effect abandon the floating exchange rate system. Consequently, money supply cannot be controlled by the central bank in any absolute manner under a floating exchange rate system.

FALLACY of Interest Rates

We are told that the Government can control the economy by raising or lowering interest rates. This presumes the old world of economics of fixed exchange rates where the king (government) controls absolutely the money supply. That simply is not the case in a floating exchange rate system. Secondly, a closer look will now reveal that interest rates can do nothing to cure the turmoil. We are dealing with the essence of the Economic Confidence Model with the emphasis on "confidence." The yield curve in this instance will steepen sharply irrespective of plan of nations. During economic panics, capital will initially seek cover, which means it will run as far away from uncertainty as possible, irrespective of income. Thus, the short-term rates will collapse to as close to zero as possible for capital will not trust banks nor stocks. It was pure and simple preservation. The yield curve in normal financial panics, steepens when capital fears the Private sector. Unique to this situation, we will see a sharp increase from the deficit of the last fiscal year that just ended September 30th, 2008 with about \$400 billion in new debt offerings. If the Government had to actually issue just \$250 billion related to the crisis, this means the new supply of debt will jump to \$650 billion at a minimum. We could see the expansion of the debt to well over \$1 trillion for the tax revenue will decline, both federally and at the state levels, prompting yet another crisis. It is likely there will require federal bailouts of state economies as well in 2009.

These current events aside, historically speaking, just for once examine the evidence. During the Great Depression, interest rates collapsed from the 6% to the below 1% level. There was a huge flight to quality on a global scale. I wrote of the real events in the Greatest Bull Market in History showing that virtually all of Europe defaulted or suspended its debt. This led to a massive flight to quality that caused the buying of dollars. This drove the dollar to new highs and was not understood back then, leading to the passage the Smoot-Hawley Tariff Act of 1930. The economic contraction was so bad that Britain even cut Canada loose allowing it to be recognized as an independent nation by the Statute of Westminster in 1931. By 1932, Congress enacted the Norris-La Guardia Act, which was the first law to support organized labor activity. It was the global flight to the dollar that had seriously confused politicians and sparked the protectionism. This flight to the dollar also collapsed interest rates at a faster pace irrespective of the design of the Government. By the abandoning of debt in Europe, they essentially abandoned the Fixed Exchange Rates under the Gold Standard creating a form of floating exchange rate system constructively that forced the dollar to record highs. This was one of the reason Roosevelt confiscated gold and devalued the dollar relative to gold in 1934 raising gold from \$20 to \$35 per ounce. If anyone tells you the Government is in absolute control of interest rates, they do not know what they are talking about. Look at the facts behind every major financial panic, 1837, 1873, 1893, 1907, and 1929, and you will walk away with a new perspective. As long as there is a flight to quality, interest rates will decline short-term, but will rise long-term due to the massive supply on the horizon. If the new bonds are sold only domestically, this will be still deflationary drying up private cash needed at times like this. International purchases will bring new cash in and stimulate the overall net structure.

The FALLACY of Taxation

We have often heard that Republicans raised taxes during the Great Depression. Let us set the record straight. The only people who paid taxes were the "rich" for the payroll tax did not come into play until after World War II. Raising taxes on those who created jobs made no sense. The fears of maintaining sound money were dominant, and that is what led to Keynesian theory later on. You cannot punish the productive forces when you need them the most.

The Kondratieff Wave

Nikolai Dmyitriyevich Kondratieff (1892-1938) is in my opinion the father of modern economic cyclical theory. Following the 1917 Russian Revolution, Kondratieff was an economic professor who was called upon to create the first Soviet Five-Year-Plan. To do the job, Kondratieff explored the global economy as it stood in his day to come up with a program to stimulate economic growth. In 1926, he published his conclusions and findings in a report he entitled "Long Waves in Economic Life."

Kondratieff's work showed waves of economic activity that would span 50-60 years in duration. He began with the time period of 1789 to 1926. He saw essentially three great waves with highs about 1820, 1864, and 1920. Because the economy during the 1800s was largely 70% agricultural based and even by 1929 it was still 40% agricultural with respect to employment, the base assumption of his work lends itself to criticism, but only from the standpoint that the economy matured evolving into an industrial based economy. This has had an effect upon his predictions long-term. For example, even if we look at the last high in commodity prices of 1919 caused by World War I, we can see that the great explosion in commodity prices between 1974 and 1980 would have been quite correct. However, while there was a recession following 1980, it did not produce the economic depression. The only reason this did not happen, was because the base of Kondratieff's work was calculated by commodity price movements. Once commodities were no longer the central dominant economic component, their rise and fall would have the opposite effect. A decline in commodities fueled industrial profits and the economic evolution reduce agricultural employment to 3% by 1980.

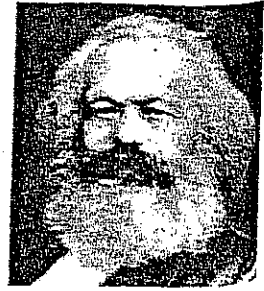


Nikolai Dmyitriyevich Kondratieff
(1892-1938)

Kondratieff was the father of applying cyclical activity to economics in modern times. His work inspired myself, as well as others, including Joseph Alois Schumpeter (1883-1950) who wrote *The Theory of Economic Development* (1911) where he argued it was the innovation of a new product or invention that created waves of economic prosperity led by entrepreneurs. He then wrote *Business Cycles* (1939) where he wrote that new developments generally came irregularly and in bunches creating cycles of boom and bust. Schumpeter perhaps fell out of favor when he wrote *Capitalism, Socialism, and Democracy* (1942) where he disputed Marxian notions that if government sought to reduce unequal distribution of income and to eliminate business cycles, this would destroy the very conditions in which entrepreneurs could flourish. Big business, he concluded, would eliminate the entrepreneurs from decision-making positions within industry. This would result in the destruction of capitalism for it would then lose its ability to grow and develop, that would undermine the economy and lead to socialism. Schumpeter taught at Harvard University in the 1920's, but did not join the regular faculty until 1932.

Kondratieff's work was seen as a criticism of Stalin. He was arrested in July 1930, accused of being a member of non-existent "Peasants' Labour Party" and as early as August 1930, Stalin wrote a letter calling for his execution. He was first sentenced to 8 years in prison. He wrote 5 new texts while in prison that were never published. During Stalin's "Great Purge," he was given a second trial on September 17th, 1938 and sentenced to 10 years, and then taken outside and shot at the age of 46. He died for his research as others before him.

ECONOMIC REALITY
KARL MARX WAS THE MOST INFLUENTIAL ECONOMIST
THAT PERHAPS EVER LIVED



Karl Marx

Karl Marx (1818-1883) is arguably the most influential economist that ever lived in modern times. Some would point to John Maynard Keynes or even Milton Friedman. But the cold hard fact of life is that honor belongs to Marx. It goes without saying that his **Communist Manifesto** effected probably half the world. But what is overlooked is the fact that while Marx was in exile in London, he did happen to have a steady job. That was writing for the New York Tribune. Make no mistake about it. Marx's ideas touched that personal cord of jealousy within human nature, and that created Socialism that dominates the other half of the world.

Marx's writings were over more than 40 years. His interests shifted during that time frame and he often changed his mind. But his political philosophy remained very consistent, despite the fact that his ideas were not presented in a clear documented manner, suggesting that if people want to believe, they just do, even in the face of an absence of a systematic coherent scheme. Marx was welcomed with open arms by the American politicians and was largely behind the progressive movement led by, yes, the Republicans. Marx's idea was that employers would be so cheap that they would exploit labor to the point that they would no longer be consumers and that would collapse the core of capitalism. Of course, Marx failed to realize that at some point along the way, the employer would either go broke himself by being unable to sell his product, or he would have to yield to the free markets cutting prices or paying higher wages.

Marx is responsible for almost all white collar crimes. The politician responded first with the Interstate Commerce Act regulating commerce to prevent what Marx said would happen that was not realistic. Next came the Sherman Anti-Trust Act that also sought to prevent the consolidation of business reducing the number of employers. This came to be followed by the Income Tax in 1909, that was politically justified by Marxism targeting the evil "rich" who threatened capitalism. All of this legislation was enacted and the huge costs to the taxpayer that is now the average man, was all created based upon Marxism. Sometimes, we just forget. Economic ideas do move nations. Bad economic philosophies have cost millions of lives, destroyed families, and suffered generations to be deprived of liberties. As you listen to both Republicans and to the Democrats, you will notice, they all have prejudged Wall Street blaming them and once again resorting to Marxism based philosophy. They are anointing all those who work in the financial industry as the "evil doers" that have caused the collapse.

The Lessons of Time

Francis Bacon (1561-1626) said that "If man will begin with certainties, he shall end in doubts; but if he will be content to begin with doubts, he shall end in certainties." **The Advancement of Learning**. The idea of cycles has been around for a very long time. Even the highly respected Roman Emperor, Marcus Aurelius (121-180AD), noted that "All things from eternity are of like forms and come round in a circle." When we look at a chart of gold, stocks, the economy, or any commodity, we are looking at not some distinct object, but at human interaction with that instrument. Gold does not rise and fall by itself. The chart is showing human demand and how they will run toward as well as away from that instrument. When a young man died in battle, his mother cried whether that is today or back in Roman times. The unifying theory in all forms of financial analysis is that the unchanging element is human emotion that is the same today as it was hundreds of years ago.

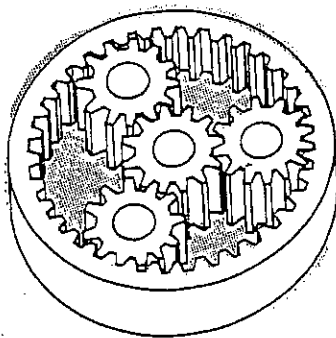
Understanding the Nature of Time

Time is but a dimension that we divide up to mark its passing. Western thought unfortunately is linear, not dynamic. This has been the curse of western understanding and knowledge. Time is but a cycle - a circle. Asians are raised with the idea of cycles leading to a more dynamic thinking process. Some, see and feel cycles, and some see it as "necessary" and instinctively understand them. Lady Margaret Thatcher once commented to me that the Conservatives would lose the elections in Great Britain when John Major was running, she said - "It's just time."

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

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

Nisbett was correct. I have lectured in Asia since the mid 1980s. I noticed that I did not have to explain cycles to Asians, they instinctively understood what I was talking about. Western thinking is generally linear, and has greater problems trying to comprehend multiple relationships taking place on a dynamic level. The way I picture the world in my mind is akin to gears in a machine, where everything is connected. If I turn one gear, all others change instantly. Cyclical activity is similar. Some find it far too complex. But keep in mind that we are all connected. Just as there was a flight to the dollar because of events in Europe during the Great Depression, events in other nations cause effects around the world. It is this dynamic structure that makes it appear to the casual observer as pure chaos. But there is no such thing as "chaos," for it will in fact be clear order below the surface, if you understand the nature of time.



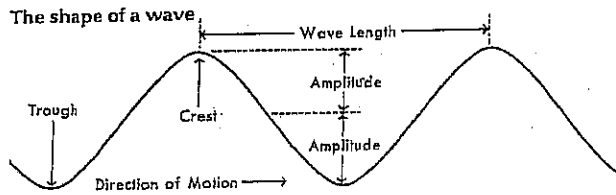
Dimensional Time

Time is a dimension within the nonlinear concept of multiple dimensions. It is like an onion to itself. Peel it back and there is another layer. We can slice and dice time to create countless layers of observation, and it is here we must realize that cyclical activity can be observed, but to avoid false readings, the truth of time is that the interval of activity must exist on all layers to be valid. We can see waves in the ocean. Most do not realize that what the wave is by its nature, a flow of energy that come in cycles. If you go to the beach and move beyond the point where the waves are breaking, the wave passes through the water. You will rise with the water but the wave will pass by you traveling to shore. The water is just the "medium" through which the energy wave moves in a transverse relationship. In other

Transverse wave



words, if we took a rope and tied it on one end and then whip the other up and down, the wave moves through the rope, the points on the rope do not move with the wave.

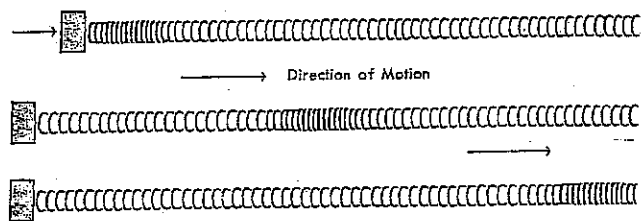


A cycle wave is measured traditionally from crest to crest and is defined as the "Wave Length" with the vertical height from the trough to the crest known as the degree of "amplitude." This is the basic formation of a proportional cycle wave regardless of the medium be it water, the earth as in an earthquake, of people reflected in a market or economy.

In addition, we can look at electricity to understand why cycles perhaps exist. We all know that there is "direct current" that is what you have in a battery you put in a radio, and then we have "alternating current" that travels to the outlet in the wall. Direct Current ("DC") cannot travel distance for if you need a specific power output, the resistance in the wires alone will reduce the current so that by the time it reaches the intended destination, it will not function. We add cycles to electricity to create an Alternating Current ("AC") that allows the target unit to function in a range of power levels. The sun itself is a form of AC insofar as it fluctuates about 15% in amplitude with a 300 year wave length. Indeed, if the sun functioned only at one temperature and it dropped below that level, the sun would simply blow itself out like DC. Cycles extend life. They are the way all life is enabled. It is the cyclical beat to your heart. It is why you sleep at night.

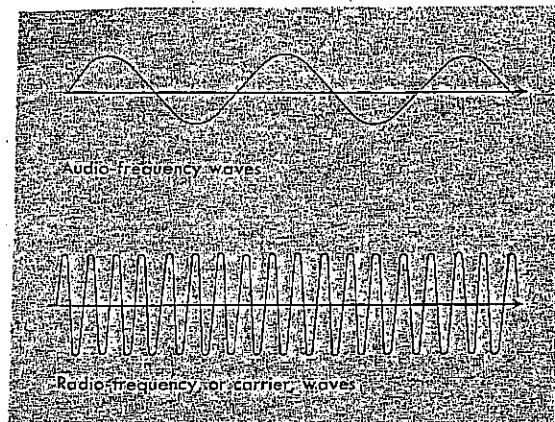
Now that we understand that cycles exist in all aspects of life itself, we must also understand that sometimes the energy wave that constitutes the cycle can be Transverse whereas it purely passes through the medium effecting only amplitude, while there is also much more destructive Longitudinal Wave that causes a temporary change in the medium. If we

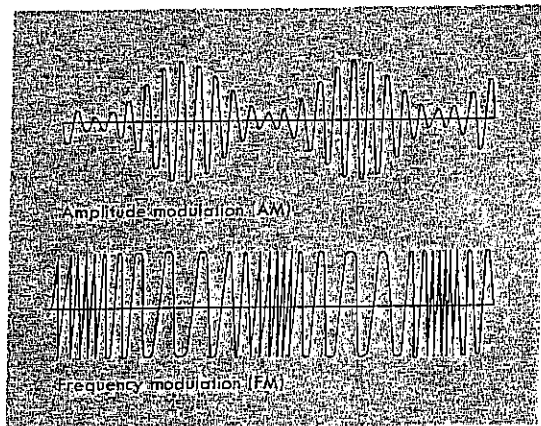
Longitudinal wave



use a coiled spring and create a cyclical energy wave to pass through it, the wave will cause the loops or coils of the spring to contract closer as the wave passes into that region. The coils will return to normal once the wave passes. This can take place where there are convergences of various cyclical forces that also may create panic cycles or increase amplitude exponentially. In water, sailors have told stories of "giant" or "rogue" waves that appear out of nowhere: What these are can be simply explained as a "cyclical convergence" whereby numerous cyclical waves join together and produce an abnormally "giant" or "rogue" wave that causes the amplitude of the individual waves to blend together producing the huge abnormal event. This wave interference is often known as the "phase." If two waves of the same frequency as measured crest to crest join together, the amplitude will increase. If the two wave are out of "phase" that is measured in the degrees of a circle (360°), let us say by 180° , the waves will interfere with each other and can cancel each other out. Wave theory applies even to light, sound and to the internal parts of atoms. It has been noticed that electrons, neutrons, and protons, will also at times behave in waves.

Complex wave structure can be also illustrated by radio waves. Here, it has been discovered that we can combine two waves to create the radio. We need first the sound wave, and to transmit that sound we need a "carrier" wave. The two are combined to create the radio wave showing that we can also obtain complex wave structures.

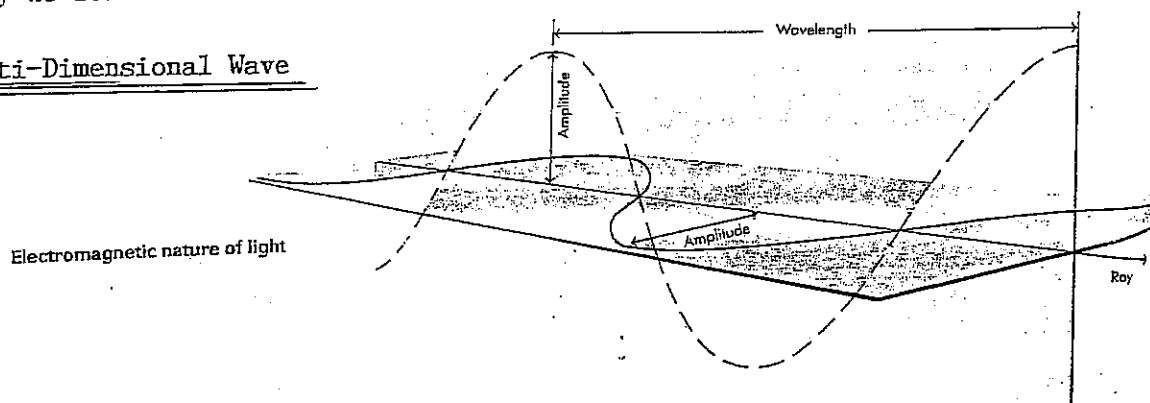




The complex structure of cycle waves can also be illustrated by the difference between AM and FM radio. If we alter the amplitude of a cycle wave, we will effect the intensity. In radio, this is what we call (Amplitude Modulation "AM"). We know that AM radio is not as clear and cannot travel as distinct as sharp as FM radio, that is achieved by altering the wave length, known as (Frequency Modulation "FM"). So we can see that different effects can be achieved by altering either the amplitude or the wave length frequency.

Edward Dewey who started the Foundation for the Study of Cycles, was the economic advisor under Herbert Hoover. He came away from the Great Depression with the distinct feeling that it was like what they commonly call, "Murphy's Law" - whatever can go wrong will go wrong. The Great Depression was not just a economic disaster, it was also a natural period of disaster - the Dust Bowl. There was poor management of the soil, destroying the natural grasslands and converting it to wheat that did not protect the soil. This became a disaster similar to the Biblical length of drought - 7 years. The drought began in 1931 and the destruction of the agricultural industry that accounted for about 40% of all employment, drove the unemployment rate to nearly 25%. The drought created the "dust bowl" forcing American labor to become skilled. The Dust Bowl was the most severe between 1935 and 1938, with 1935 scoring 40 storms while one of the worst took place in May 1934 blowing 318 million tons of soil to the East Coast on the wind. It was this combination of cycle events combining weather with other economic forces that caused Dewey to walk away from the event believing in some complex cyclical activity he felt needed to be investigated.

The Multi-Dimensional Wave



Now we are ready to look at multi-dimensional waves. This can be illustrated by light itself, which travels in a electro-magnetic wave with two components. The wave travels with the electric and the magnetic fields together, but positioned separately at 90° angles. Einstein posited the theory that light is made up of particles of photons, which may appear to be contradicting wave theory. But tests have shown that at times light behaves like a wave and at other times like a particle. We need not go down this road since it is not the subject-matter at hand. It is sufficient to state that wave theory still applies to light. I am bringing this up primarily to illustrate that altering the wave length creates different effects and this is the central theory behind the Economic Confidence Model.

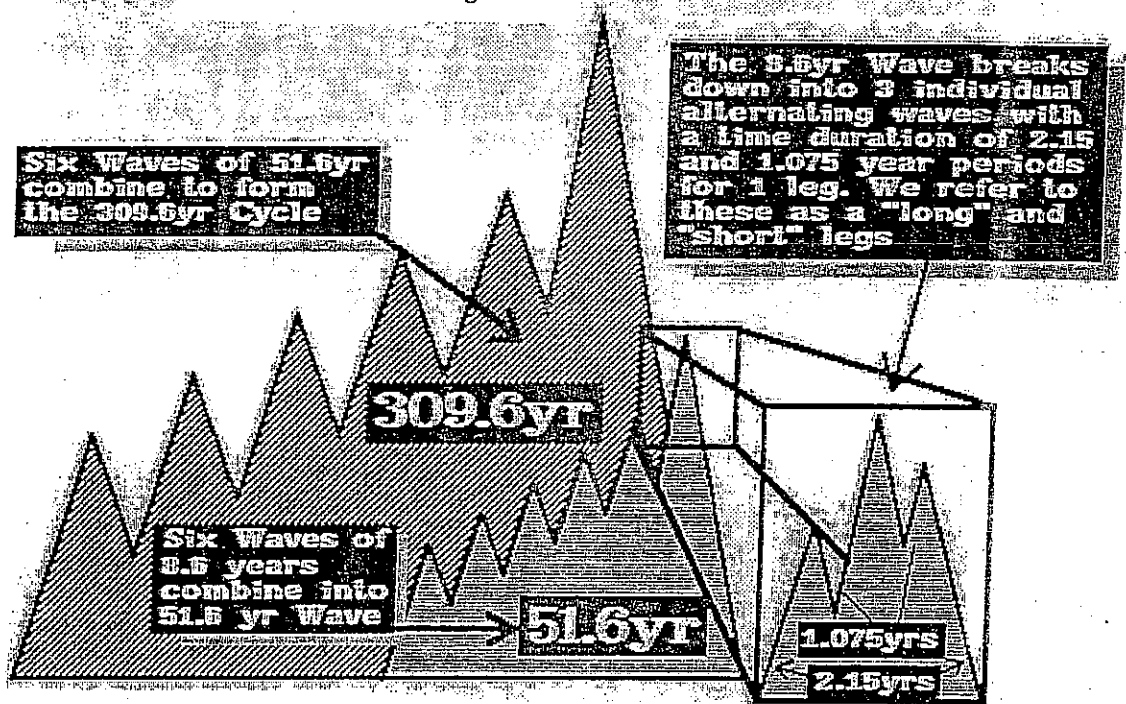
Visible light is known as the "visible spectrum" that is defined by measuring the wave length. If we shorten the wave length, we cannot see the effect known as ultraviolet rays causing sunburn. Shorten it more, we get X-Rays to pierce the body and shorten it even further we get Gamma-Rays that emerge with nuclear reactions.

If we now increase the wave length measured from peak to peak, we move far beyond the visible spectrum and beyond the infrared rays. Now we are into the world of Microwaves so many people cook with from the inside out and then Radio waves and Television waves. We can embed cripted waves within the television and radio waves to provide even more information. But as you can see, cyclical waves can be very complex and the measurement of the wave length can vary producing a host of different effects. Using the sun alone, we can move from seeing things the eyes cannot capture while increasing the wave lengths allows us to even cook food or view television.

The Economic Confidence Model

Economic Confidence Model

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I have explained many times in the past, I discovered the Business Cycle back in the 1970s quite unintentional. I have explained that as a youth, I was fortunate to have travelled to Europe in the mid-1960s spending the summer there with my parents. Traveling around from country to country introduced me to foreign currency exchange. I had obtained a job in a local bullion/coin store to earn money for the journey and became familiar with the precious metals markets as well. So years later, I was sitting in history class when the teacher turned on a black & white film - "Toast of the Town." This was a film about the Panic of 1869 where the term "black friday" was first coined, because of a gold panic, people were dragging the bankers out to the streets and hanging them. To suppress the Wall Street riot, they had to actually send in the troops. One scene showed Cary Grant as a youth giving James Fisk (manipulator) the quotes on gold. He read "\$162." Having worked with gold, I knew it was only \$35. Suddenly, my linear world collapsed. I went to the library and even verified that quote was correct. I could not understand how something was much higher in price in 1869 than today - that was not linear!

At first, I explored my own analysis, not expecting to find a cycle, but in fact I was trying to disprove cycles. In the course of events, what I discovered changed my entire life, and I have been paying the price ever since. I had begun by looking at financial panics. How many were there? Why did they happen? I had gathered everything I could find. I found 26 such panics between 1683 and 1907 - a span of 224 years. I then did a simple calculation to determine the average. It produced the number to be precisely 8.6153846615.

I began to explore the time series to try to comprehend what caused them. I could see throughout history that nations and empires always rose and fell. There had to be some explanation as to why such states just expire. I began to notice that even politics flowed in a cyclical nature: Sudden shocks economically seemed to even spread like a contagion around the globe. I noticed that war were similar. If one takes the American Revolution, you see the trend feeds France. The revolution in England in 1689 spreads to a revolution in Russia. The examples are endless. Even going back to ancient times, the Romans overthrew their Tarquin kings in 509BC setting up a Republic while in Athens in 508BC Democracy was born.

My studies led me to see great waves of structured trends that built into groups of 6 waves of intensity(volatility) forming major waves of 51.6 years (6x 8.6). I further began to see that how the economy reacted different on an alternating basis between Public and Private Confidence. When the people trusted the state, volatility was lower almost feudal inasmuch that when an invader appeared, one could run behind the walls of the castle. Private waves produced far greater innovation where self-interests fueled progress creating exponential economic advancement. For example, the last 3 highs of the 51.6 year cycle were 1878.15, 1929.75, and 1981.35. The first was a Public wave filled with civil war and great expansion of government. The next wave saw the boom from the railroads and the innovation of the car. The last was a Public wave peaking in 1981.35 marking the peak in the New Deal with escalating inflation and perpetual deficit spending. Now we are again in a Private wave marked again by the great proliferation of desktop computers, globalization of the economy, and the birth of the Internet equalled only in importance to how the railroads expanded the economy from coast to coast.

During the early 1970s I was infallible. I foresaw gold rising from 1970 into 1974 based upon the gold-bug fundamentals, and gold rallied from \$35 to almost \$200. But then gold fell back to about \$103 going into 1976. The fundamentals had not changed, but the model was correct calling for a low in 1977.05 with an exponential rally into 1981.35. I realized that my infallibility was dumb luck just like a broken clock is still correct twice a day. I sold at the peak in 1974 only because it felt right. I truly first followed the model at the low and saw the exponential rally before my very eyes.

Shortly after publishing this model in the late 1970s, I received a request from a well known U.S. military school - the Citadel asking permission to teach this model in school. I was compared to G.W.F. Hegel (1770-1831) who was a noted German philosopher who posited that human nature could not be understood without retracing the footsteps of mankind throughout history. It was Hegel who promoted a wide spread investigation of history into various fields besides the study of philosophy, art, religion, science, and politics. Hegel's "dialectic" was his theory of history that formed three basic characteristics; (1) the course of history follows that which is necessary for it cannot unfold differently, (2) that historical change develops as does progress, and (3) that one phase of historical development tends to be confronted and replaced by its opposite, and this is in turn replaced by a phase that is somehow a resolution of the two previous opposed phases. It is these three phases that he viewed formed a typical dialectical development that has been called thesis, antithesis, and synthesis, but Hegel did not use those terms. While I do

not agree with Hegel in all aspects, until I was confronted with his work, I had not made the connection between my observations of shifting confidence between the Government and the Private Sector, and the "dialectic" process of Hegel. I agree with Hegel that there are great swings throughout history that drive the destiny of men. But I see this also as the struggle of cooperation that forms the foundation of civilization. As the Roman Senators discovered, give the mob holidays, free bread, and plenty of sport games, and they will be so occupied with their pleasures that they will leave the Senators alone to rob and corrupt every corner of society until the mob can no longer be fed and revolution takes hold. Karl Marx saw this struggle only between the employers and the working class, rather than between the state and the people.

The 8.6 year cycle I have written before contains 3,141 days that forms the cycle or circle so to speak equal in number to $\pi \times 1000$. I also explained that I did not discover this from π , but later discovered π in trying to figure out its accuracy. I explained that the cycle was discovered from a study of the number of financial panics between 1683 and 1907 that was a total time period of 224 years. There were 26 panics within that 224 year period that produced 8.615384615. It was later discovered that these individual waves built-up into groups of 6 producing a major wave of 51.692 years that was very close to the observations of Kondratieff. I also tested this back in time forming a group of 6 waves again that produced the major wave of 309.6 years. At this level, I began to notice the rise and fall of civilizations. At a conference of the Foundation for the Study of Cycles, a guest speaker Sally Balbinus showed her discovery of a 300 year cycle in the energy output of the Sun. It was an average that shocked me for it matched very closely to the 309.6 year cycle in the rise and fall of civilizations.

Like the character Neo in the Matrix who realizes he is the "One" because he can now see the code, the hidden order of cycles indeed is everywhere from the beat of your heart, weather, the planets, and life itself. We must first grasp the dynamic nature of cycles. Above, is the 8.6 year cycle on a multiple time level. We can see how it moves up through time in phases of 6 groups. For a cycle to become valid, it must exist on all levels of time.

In the Second Article "The Business Cycle and the Future (Part II)" dated October 10th, 1999 (the one the Government prevented from being published but escaped via former employees), I explained that there were 8.6 month and 8.6 week cycles within the 8.6 year wave formation. Just as the cyclical wave builds upward in scale through time, it also must exist moving down in time right into minutes. But notice that the wave builds into larger waves in groups of 6. This in fact builds into another great wave instead of being 51.6 years, the grouping builds separately, yet simultaneously into great waves of 72 years. The organizing frequency of 72 years becomes a cornerstone of self-referral - intensity (volatility).

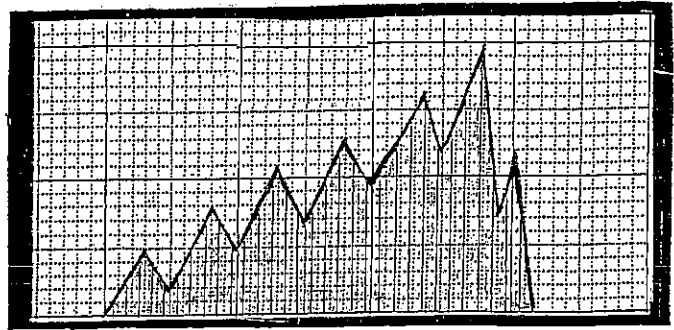
The 224 Year Cycle of Political Change

The 224 Year Cycle Frequency

In the October 10th, 1999 article, I revealed what the Government was trying very hard to suppress - the 224 year cycle of Political Change. I gave a review of numerous governments throughout time showing the relationship of this frequency to political changes. Some governments did not last beyond that time frame, while others reformed and survived, albeit in a different manner. There is still the effect of a parallel wave of grouping that tends to create the self-referral nature that fueled both intensity (volatility) as well as repetitive cycle of which Hegel spoke, that the opposite system emerges. Sometimes there may be a synthesis of the two prior systems, but this gives rise to the maxim that history repeats.

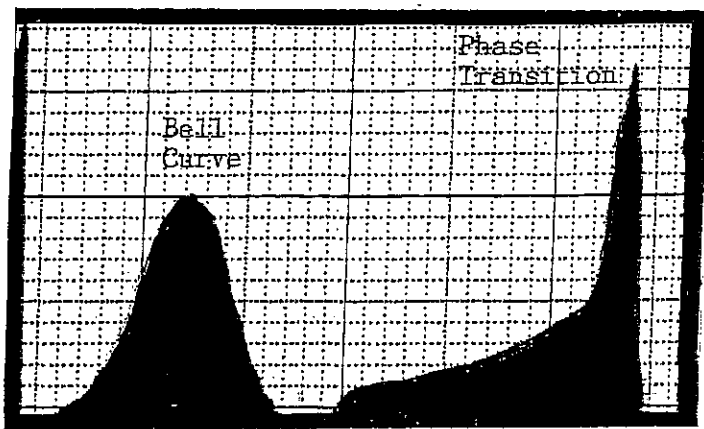
The Shape of the Wave

One of the great misconceptions in cycle theory is that cycles unfold like a Bell Curve. This is simply not true, as we will explore. When we consider the major 224 Year Cycle of Political Change, we are confronted with precisely how the wave is formed.



Another fallacy has been that there is some mysterious "equilibrium" that forms a magic balancing act. This notion of a magical state of "equilibrium" arise from economics where those who construct the theories lack personal experience. The idea of "supply and demand" inherently creates images of balance from which "equilibrium" seems to have emerged. In the real world, one realized that the economy is more like one of those equilibrists who try to balance themselves on a chair on the edge of a sky-scraper. The idea of "equilibrium" is just impractical for it is like the search for the fountain of youth. If the state of the economy were truly balanced, we would be in the dark ages. Adam Smith who wrote the celebrated Wealth of Nations in 1776, states: "Nothing, however can be more absurd than this whole doctrine of the balance of trade." (Book IV, chp III, part II). If trade were perfectly balanced, there would be no progress, for the advantage of one nation creates prosperity in that nation that can come only at the expense of another. That does not mean protectionism is the answer, for that creates the dark age with no prosperity.

For this very reason, that the "shape" of the wave cannot also be uniform with a nice balanced structure. The shape of the wave illustrated here is a long period of oscillations that build into a major high, and then like the equilibrist who is left in an unnatural state, suddenly faces the hazardous collapse. The shape of the wave illustrates the catastrophic melt-down, that appears to come from nowhere like a "great" or "rogue" wave of combined force in the ocean. It is not a Bell Curve.



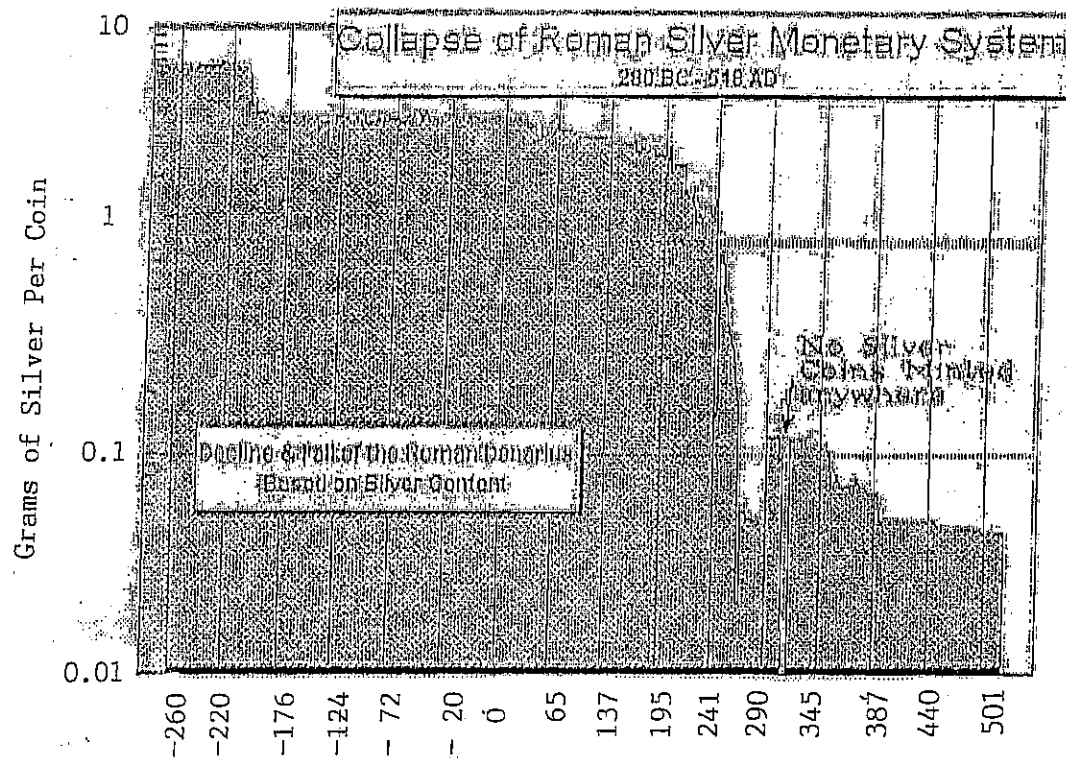
The Phase-Transition

The reason the model was indeed correct in forecasting the political change in China & Russia and the big collapse in 1998 in Russia, is due to understanding the wave structure. A system can crash from exhaustion, or it can go through a Phase-Transition that creates the exponential rally such as the .Com Bubble. Nikkei 1989, or gold jumping from \$400 to \$875 in about 4 weeks for the high in 1980.

The Phase-Transition is typically described as taking water and boiling it. A pot of water progresses in temperature, but toward the end, it jumps into a chaotic state that erupts at the boiling point creating a Phase-Transition as water converts to steam. Science has studied this process that has revealed the nature of all things. The process does not follow the Bell Curve but becomes an exponential move at the end, which we call the Phase-Transition. Some have called these "Power Laws" that are essentially fractals discovered by Mandelbrot experiments. Some have referred to this as the science of "chaos" yet it is far from "chaos" in that it is a natural and required function within nature.

It is critical to understand the shape of the wave itself. We are dealing with the Phase-Transition shape, not the bell curve models. The shape of the wave becomes paramount to comprehending what is possible and what is not. For example, scientists argued over two possible outcomes for the movement of the magnetic poles of the earth. It was not disputed that the poles move. We know where they have been for when a volcano erupts, the cooling magma that forms new stone is magnetized in the direction facing the current north pole at that split moment in time. Studies have shown from ancient rocks that the magnetic poles have even traded places many times. During some periods, the north magnetic pole became located at the south magnetic pole, and the south magnetic pole became located at the north. Scientists have often disagreed how the movement takes place and even why. They have found animals frozen with food still in their mouth. This has revealed that the movement of the poles is not always a gradual process. The poles suddenly jump following more of the chaotic models along the lines of a Phase-Transition.

No matter what we are looking at, change comes not in a linear fashion, but appears to be chaotic - like a "giant" or "rogue" wave that simply appears without warning. In 1999, I published the chart below of the Roman Monetary System. This was constructed by taking all the coinage of Rome, measuring its weight, and the metal content from a purity perspective. What emerged was far from linear, but showed the classic model of a Phase-Transition. The collapse of the Roman economy was swift, and certainly would have appeared to have emerged out of nowhere.



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Above we can see the monetary system of Rome between 280BC and 518AD. This clearly reveals the sudden collapse that appears out of nowhere taking shape in the form of a Phase-Transition. The Roman Empire peaked with Marcus Aurelius in 180AD, precisely 224 years after the murder of Julius Caesar in 44BC from which the Imperial Age began. Note that 72 years after 180AD, we arrive at 252AD. This is where the Phase-Transition takes place. The monetary system collapses during the reign of Gallienus (253-260AD). I discovered this phenomenon while creating a model on the Lebanese pound for the Universal Bank of Lebanon in the 1980s. The model was completed 8 days before a Phase-Transition. I came to realize the model predicted the war because those who knew it was coming, moved capital in advance causing the model to see the event.

The turning-point of 252AD was right on target for in 253AD, where the majority of the collapse takes place, going into 268AD marked the reign of Valerian (253-260AD) and his son Gallienus (253-268AD). Valerian was captured by the Persians in battle, and by the end of Gallienus' reign, the silver content of the coinage reached virtually zero and even the bronze content was severely reduced. This collapse was perhaps very similar to the hyper-inflation of Germany, although not to that extreme. The economic decline promoted political unrest as rebels appeared in Britain, Gaul and Spain that causing them to secede from the Empire. Once again, notice the repetitive pattern of cyclical behavior. Again, 72 years from the peak on the 224 year Political Change Cycle in 180AD, we come to the monetary collapse that begins in 252AD. The slight recovery displayed in the chart is the Reign of Diocletian who resorted by major intervention economically, not merely introducing a new coinage entirely, but he tackled the hyper-inflation imposing wage and price controls. So we see, for as much as things appear to change through the eyes of progress, they remain fundamentally unchanged insofar as how human response unfolds to specific geopolitical and economic events.

Even turning back in time before the death of Julius Caesar in 44BC, we arrive at 268BC. Note that this target was during a period of Roman rise to power. It was the decline of Etruscan power. By 275BC, Rome controlled all of Italy. From the times that existed before 268BC, we were dealing with the economic collapse of much of Italy. The First Punic War took place 264-241BC, so the 268 target was a period of great political change. Rome acquired its first provinces, Sicily, Sardinia and even Corsica. Adding 72 years to this turing point on the 224 year Cycle of Political Change brings us to 196BC, again just after the Second Punic War 218-201BC, where Hannibal was defeated in 202BC. Look at the illustration of the Monetary System of Rome. Note that the formalization of a Roman monetary system really began in 280BC, with a significant reform in 240BC and again after the Second Punic War.

Look even further back in time, the 224 Year Cycle of Political Change target was 492BC. Keep in mind that this is where the idea of a republic and democratic forms of government swept the world in a political tidal wave, not uncommon from the sweeping change that took place in China immediately followed by the fall of the Berlin Wall. Romans overthrew their monarchy in 509BC while democracy took hold in Athens in 508BC. This was a sweeping year of political change that was in line with the 492BC turning point within two 8.6 year cycles.

If we go back to 180AD that is considered the pennacle of the Roman Empire under Marcus Aurelius, moving forward we come to the next 224 year target in 404AD. This was the reign of Honorius (395-423AD). Rome was even invaded and sacked by the people known as the Visigoths looting the treasury and the city itself. This was the period of the Hun invasion. Attila did not become king of the Huns until 434AD. But the invasion of the Roman Empire by the Huns preceeded Attila taking the thrown. What is very interesting, is that adding 72 years to the 404 target brings us to the very last Emperor Romulus Augustus (475-476 AD). During this entire 72 year decline from the 404 target, the Roman Empire was imploding, but following the 8.6 year cycle and the volatility dimensions very closely. In fact, during the reign of Valentinian III (425-455AD), Attila the Hun had become so powerful and arrogant, he demanded in 450AD that the Emperor give him his sister Honoria in marraige. In the East, Attlia demanded and obtained annual payments from Constantinople to avoid being invaded.

Looking to the East, that portion of the Roman Empire began when Constantine decided to move the capital to the ancient city of Byzantium. Constantine offically declared his new capital in 330 AD. Construction was at least intially completed by 333AD, yet some major landmarks like the "Blue Mosque" was originally St. Sophia built by Justinian I in the 530's known then as "Hagia Sophia." Nevertheless, the turning points on the 224 Year Cycle of Political Change were 333, 557, 781, 1005, 1229, and 1453. The Byzantine Empire thus lasted from the construction of Constantinople

5 Cycle Waves. It was precisely on target in 1453 that the city fell to the Turks and became the new Ottoman Empire. This precise peak for 1453 was so significant, we forget that the ripple effect of the fall of Byzantium was the entire catalyst that gave birth to our modern society.

We have often forgotten that it was the collapse of Constantinople that led to the flight of scholarstaking with them all the books of knowledge back to the Roman and Greek times that created schools in Rome and sparked the entire Renaissance. Even in Russia, it was the fall of Constantinople that led to the flight of scholars and royal family members that created much of the culture of Russia. The sheer scope of the Byzantine Empire in its longevity was astonishing. There were many economic crisis that unfolded, wars, plagues, and political coups. But it reinvented itself time and again. In fact, while Constantine renamed the city Constantinople in 330AD, the first peak on the 224 Year Cycle came in 557 AD. Indeed, the political tensions developed into a two party system that clashed into street brawls. The antigovernment riots did reach a chaotic state in 532AD where much of the city was left in ruin. It was from this riot, that the Hagia Sophia was built much like the Empire State Building became the symbol of rebirth and hope during the Great Depression.

The Crusades

First Crusade	1096 - 1099
Second Crusade	1147 - 1149
Third Crusade	1189 - 1192
Fourth Crusade	1202 - 1204

Even looking at the crusades, we see one 51.6 year wave between the First and Second Crusades. The Third, Fourth, and the Children's Crusade of 1212 where thousands of children from France and Germany believed God would part the Mediterranean Sea and allow them to walk directly to Jerusalem, died enroute to the sea, when their expected miracle did not happen, many survivors returned in shame, while others tried to get there by ship, were merely captured by the Muslims, and sold into slavery if they did not perish at sea. The so called Fifth Crusade (1217-1221) only amounted to the capture of Damietta in Egypt and the Sixth Crusade was led by Emperor Frederick II of the Holy Roman Empire (1228-1229), which finally compelled the Muslims to turnover Jerusalem, but they seized it again in 1244 taking it away from the Christians. This was followed by the Seventh Crusade led by Louis IX of France, who became known as St Louis (1248-1254), who was captured by the Muslims and ransomed. Louis led the Eighth Crusade in 1270 that captured Tunis, but he died shortly thereafter. While the Third Crusade was a failure and a prelude to the Fourth, it was the Fourth that began about 51.6 years after the Second that finally ended in the whole crusade effort about 72 years later from the year 1200.

The examples are numerous, but what we find is a complex dance of cyclical activity forming different wave lengths and creating different effects. But note the strange appearance of the 72 year cycle that is not a harmonic of the 8.6 year cycle or the 224 year, yet it follows the 224 year cycle with regularity. This is exposing a multi-dimensional cyclical wave formation that is far from flat. There is yet a third dimension, that is even more complex, that is hard to see without the cold power of computers - The Schema Carrier Frequency.

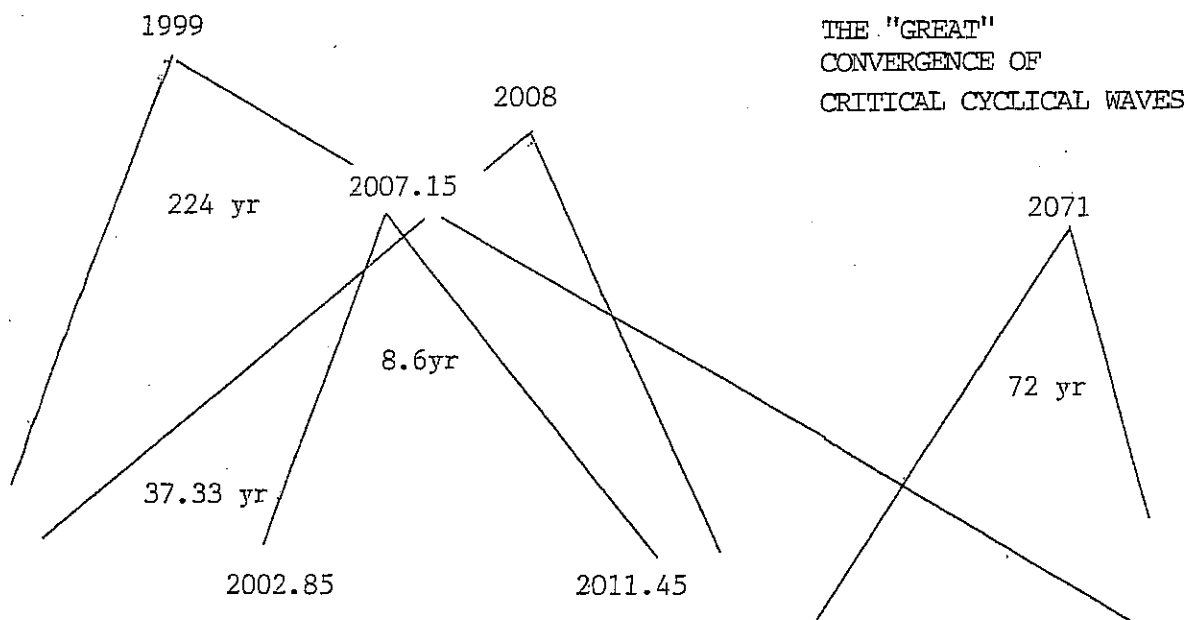
The 224 Year Cycle Wave & The United States

The United States has also hit its target in 1999 on the 224 year cycle from 1775. This was that point where one must say, "It's just time." In Hegelian terms, we reached the point in time that political change and upheaval was just plain and simply stated as "necessary." Of course, a lot has happened. There was even the 911

attack and of course there was the controversial Bush-Gore Election. There would be hardly anyone who can deny that the nation has begun a spiral downward and where it will lead is a cliff of uncertainty.

It does not appear that the 1999 target on the 224 Year Cycle is the end of American Civilization. But it may very well be that point in time that historians in the future will look back upon and draw the line in 1999 as did Edward Gibbon regarding 180AD and the peak of the Roman Empire with the reign of Marcus Aurelius. The United States will survive, albeit, not necessarily as we once knew it. There are great convergences of cyclical waves coming together for this downturn that does not look very good for the immediate years ahead.

As I have shown, the major changes in the political economy of mankind have followed the wave length of 224 years. The rise and fall of various governments and systems have unfolded with the 224 year intervals, including Democracy in ancient times. We cannot forget, that economic stress causes itself a degree of significant volatility that forms the foundation of change. As I wrote in the *Greatest Bull Market In History*, during the Great Depression, members of the Senate stood and even made the shocking comment that a dictatorship was preferable to what they were undergoing at the time. Take away that security blanket, and you will see total chaos erupt among the masses. Below is illustrated the convergence that we now face.



The "Great Covergence" that we now face is one of those moments in time that Hegel viewed as "necessary" and Thomas Jefferson perhaps viewed as a natural event where the blood of patriots is needed to feed the Tree of Liberty. While the clear high in the political state of the United States took place in 1999, the economic high came precisely to the day on February 27th, 2007. We have witnessed a steady economic decline much for the same reasons as the decline of the Roman Empire - excessive leverage, corruption of the rule of law, and the collapse of confidence in investing. We have now reached the threshold with the 37.33 year Financial Crisis Cycle that has come into play for 2008. The cliff on the otherside appears steep going into what should be at least the first low in 2011 on the 8.6 year target. It is now the 37.33 year Financial Crisis Cycle that will capture the attention of the entire world economy.

If we begin with the 224 year Cycle of Political Change, we know that dividing this by 26 produces the 8.615 year cycle - the base core of the Economic Confidence Model. However, as I explained, there are 37.33 weeks within an 8.6 month cycle. If we now take the volatility dimension with its base unit of 6 and divide that also into the 224 year cycle, again we end up with 37.33. This produces the following years.

1775 - 1812 - 1849 - 1887 - 1924 - 1961 - 1999

Of course, 1775 marked the beginning of the Revolutionary War that has been attributed to April 19, 1775 when the British tried to seize the military supplies of the Massachusetts militia. The Declaration of Independence was announced on the 4th of July, 1776. King George had officially declared America in rebellion on August 23, 1777. The Constitution was agreed upon finally on September 17th, 1787, but it was only ratified when the ninth state agreed, New Hampshire, on June 21, 1788. The Bill of Rights did not become law until December 15th, 1791. If we were to begin from the ratification of the Constitution, we produce the following targets.

1788 - 1825 - 1862 - 1900 - 1937 - 1974 - 2011.98

We can see that there is a 13 year difference between the 1775 and 1788 time series. Looking at the first 1775 time series, we can see that the next target was 1812. This is the time series that began from the beginning of the Revolutionary War. In 1812, Congress declared war on Britain on June 18th. The British invaded the United States, captured Washington, DC, and burned all the public buildings, on August 24th, 1814. While the war ended with the Treaty of Ghent officially on December 24th, 1814, yet it was not ratified until February 17th, 1815. This war did have the effect of destroying the Federalist Party, who had fought for greater Executive power to create a standing army. This was the essence of big government. The party collapsed after the revelation of a secret meeting in Hartford, Conn. that was alleged to support secession from the union to create their vision of an authoritative state in 1816. The Federalists were New Englanders - i.e. John Adams.

During this 13 year phase differential between the 1775 and 1788 time series, the nation swung decisively toward the "liberal" Republicans. As we move into the 1825 turning-point, we see also the shifting political ideas with the slavery issue marked by the Missouri Compromise of March 23, 1820 where slavery was allowed up to the Mississippi River, that was repealed in 1854. The first woman's college began in 1821. By 1823 there was the Monroe Doctrine opposing European intervention in the Americas. With the Federalist Party collapse, New England began to emerge as more "liberal" in favor of the people rather than the Government. The first woman's strike took place in Rhode Island in 1824, and Illinois, where Lincoln would emerge, outlawed slavery that same year. The Presidential election became deadlocked with this cycle and in 1825, John Quincy Adams was elected by the House.

Both times series clearly present a very distinct and interesting interaction of targets and shifting philosophies. The Industrial Revolution with hindsight may appear to be just fantastic. However, while it was taking place, there was a profound transfer of economic power. Just as you saw AOL come out of nowhere and merge with Time Warner, a well established company, the same was taking place during the Industrial Revolution. Agriculture was perceived to be wealth. Even Thomas Jefferson when he needed money, sold everything but land, because land was still instinctively wealth. In 1870, about 80% of the economy was still agricultural based. Even by 1929, this had fallen to about 40% while it did not drop significantly until the Great Depression, the Dust Bowl, and economic hardship that forced the dollar to record highs. Agriculture accounted for about 3% of

the work force finally by about 1980. Just as the internet has been changing the current economy leaving behind the brick-and-mortar stores, the Industrial Revolution left behind agriculture and unskilled labor. An example of the resistance is still reflected in many state laws, albeit no longer enforced. For example, there was a law that if you drove down the street in your automatic carriage, should a horse be frightened by the contraption, you were required to pull it off the road. If the horse was still frightened by the new invention, you were required by law to then disassemble it. Technology was not always embraced.

The Turning point of 1887 in the 1775 Time series was also interesting. Marx died in 1883, but the ideas were widespread and resisted the Industrial Revolution. By 1890, the Sherman Anti-Trust Act took place. This was used to breakup Standard Oil Company, American Tobacco Company, and several other large firms not to mention AT&T in our modern lifetime. There were even criminal prosecutions for given any discounts to volume clients. This became viewed as a denial of equal protection! The 1914 passage of the Clayton Antitrust Act targeted price discrimination and made criminal agreements between a dealer and a manufacturer that barred them from selling a competitor's product. These regulations were all Marxist based. It was Marx that justified the power of criminal regulation of commerce just as Keynesian ideas were used to support endless deficit spending (not what he truly advocated).

The 1924 target on the 1775 time series was the reaction low before the huge explosion of investment that drove the stock market into the historical high going into 1929, whereas the 1788 time series produced 1937, the first real crash after the 1929 and Great Depression era. The next date was 1961 on the 1775 series saw the inauguration John F. Kennedy, the Bay of Pigs in Cuba, the start of the Space Race with the flight of Alan B. Shepard, Jr. and the Cuba Missile Crisis in 1962. In the 1788 time series, the target of 1974 marked the start of the impeachment proceedings against Richard Nixon that was followed by his resignation August 8th. The US evacuated Vietnam on April 29th, 1975. It was this target that also marked the legalization for American to once again own gold after it was outlawed by FDR back in 1933.

13 Years Differential

We can see that these two time series play an interesting role with each other. It is hard to say one is more valid than the other. The phase difference between 1775 (start of war) and 1788 (start of government) of 13 years is a critical



time duration in-and-of-itself. We are therefore looking at 1999 and 2011 as a very critical window in time. This 13 year difference between the two time series is what we call a Phase-Shift. They appear to offer very distinct historical differences. The 1775 series begins with WAR and appears to be closely related to such events, whereas the 1788 series seems to mark more of the political changes that follow.

The Cycle of Alternating Political Philosophy

Perhaps it is inherent in human nature that one generation tends to move in the opposite direction of ideas from the previous. The 1960s was such a rebellion. But this Hegelian concept of opposing ideas seems to be shockingly self-evident. Many shifts in political theory take place over time. For example, Democrats were during the Civil War the slave owners intent upon maintaining slavery. Lincoln was the more "liberal" Republican following in the spirit of Jefferson & Madison. We must realize that during the War of 1812, the Republicans fought against even maintaining any standing Army. They looked back and saw the previous 224 years of Europe as creating

the very institute of a self-perpetuating government against the interests of the people. The noted researcher, Gordon S. Wood, commented on this trait.

"From the sixteenth century through the eighteenth century the European monarchies had been busy consolidating their power and making out their authority within clearly designated boundaries and military forces in order to wage war, and that was what they did through most decades of three centuries. This meant the building of ever more centralized governments and the creation of ever more elaborate means for extracting money and men from their subjects. These efforts in turn led to the growth of armies, the increase in public debts, the raising of taxes, and the strengthening of executive power."

Revolutionary Characters, What made the FOUNDERS Different, Gordon S. Wood
The Penguin Press 2006

Even the Second Amendment reasoning has changed over time. The right to retain a gun was insisted upon by the "liberal" Republicans like Thomas Jefferson who were deeply concerned about the evil of allowing standing armies. Even James Madison shared this deep concern. A standing army was power that fed the king or the executive that they viewed as a threat against the liberty of the people. They also opposed any form of direct taxation (Income Tax) because it would infringe upon the people by fostering greater governmental powers to keep track of everyone and what they earned. The Constitution, before the ideas of Karl Marx took hold in 1909, forbid any such direct taxation relegating such revenue to indirect taxation. Both of these liberties that Jefferson and Madison advocated, are eliminated.

Today, the Republicans are the Federalists despite their claims of being the "conservative" party for lessor government. The Patriot Act eliminates any such claims. What standing armies could not accomplish by invasion, Bin Laden accomplished by setting in motion the self-interest of the Executive to expand its powers. It was Thomas Paine's Common Sense that captured the spirit of the times and illustrates how the Republicans of today are a hybrid of what they once opposed, the Federalists who stood precisely for greater expanded Executive powers.

War "from its productiveness, as it easily furnishes the pretence necessity for taxes and appointments to places and offices, become a principal part of the system of old governments, and to establish any mode to abolish war, however advantageous it might to be nations, would be to take from government the most lucrative of its branches."

Paine Collected Writings

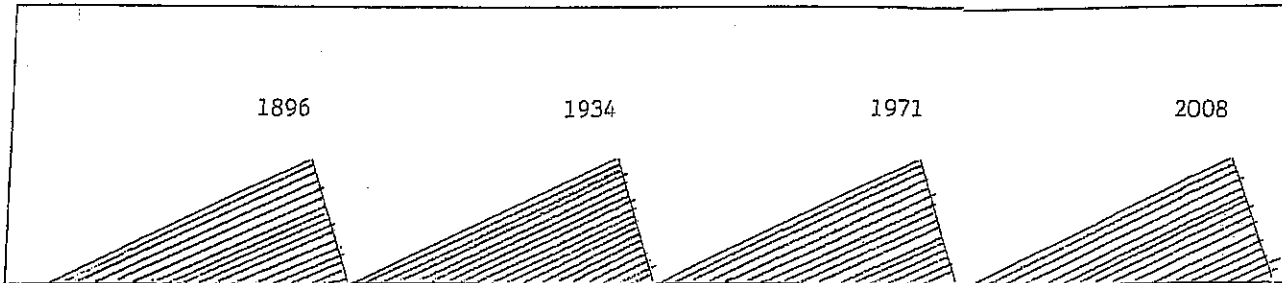
The Democrats are now the "liberal" party whose core base is New England. We can see that the same region has changed not parties so much, but "ideas" that is far more important. The very concept of political ideas also go through cyclical trends that is perhaps what Hegel saw in the swing between opposites and what I saw in the shift between confidence residing in the state (Public Wave) and the people (Private Wave). The ideas of Adam Smith stood in opposition to the Physiocrats who were French philosophers. The Physiocrats postulated that wealth was only derived from nature such as a farmer, whereas the blacksmith lived off of the wealth of the farmer. This idea sparked the age of imperialism to create vast empires grabbing land to increase wealth. Jefferson was an advocate of new inventions, but he was still a farmer who would sell anything he owned before land. It was this idea of wealth that motivated Adam Smith to write the Wealth of Nations in 1776, showing that if a farmer and a blacksmith both sold their product to France from England, then both returned with gold, which contributed to the wealth of the nation.

The 37.33 Year Monetary Crisis Cycle

The 37.33 Frequency

As there are 37.33 weeks within a 8.6 month cycle, there are also 6 waves of 37.33 years within a 224 year Political Change Cycle. These are the cycles of major economic upheavals. They are like a Longitudinal Wave insofar as they signal a major chaotic period where the undisciplined management of government comes home and they typically hunt down those in the private sector to blame. The last 4 targets within the United States economy reveal a shocking degree of order.

The Financial Monetary Crisis Cycle 37.33yrs



The last four targets of this cycle were 1896, 1935, 1971 and right now 2008. Let us begin with the 1934 event. It was here that Roosevelt confiscated gold from the people ending the lawful ownership of gold and forcing upon the people a plain paper monetary system. The gold standard died as we knew it in 1934. He announced he was confiscating gold on April 19th, 1933. This was finally ratified by Congress on June 5th, 1933. Indeed, 1933 was the last year the United States minted any gold coins as money. The new reduced size Federal Reserve Notes began to be issued in 1934. The next interval of the 37.33 year cycle brings us to 1971 where on August 15th, 1971 Richard Nixon cut the ties to gold completely even between nations. This was not a new monetary system that was designed by some world gathering as at Bretton Woods back in July 1944 where 44 countries gathered to create the IMF and the World Bank also establishing the US dollar as the reserve currency of the world.

The 1971 turning point was truly chaos. The new monetary system that emerged by default did so only because of a trade dispute where President Nixon closed the gold window and would no longer redeem dollars for gold for the French and the Swiss. This brought an end to Bretton Woods. It was not planned. It was not even discussed at a major world meeting. It was simply a trade dispute that was to be temporary, but found itself distracted by other events - namely OPEC. The floating exchange rate system thus emerged. It was not taught in schools. Economists did not know even what to teach. This was the first time a floating exchange rate system emerged worldwide. Previously, the United States abandoned the gold standard during the Civil War. Gold traded on the New York Stock Exchange in the form of "greenbacks" to gold. That led to Black Friday in 1869 with a riot as investors dragged the bankers out and hung them in the streets. That is what "black friday" really meant. The riot was so bad, the Government had to send in troops to suppress the chaos when gold hit \$162 back in 1869. Adjusted for inflation, that may be far beyond \$10,000 today.

The 37.33 Year Financial Crisis Cycle has been exceptionally accurate governing a specific reaction within the political-economic structure of the United States. The 1971 turning point produced a completely new type of world currency system by default. The 1934 turning point produced the confiscation of gold and the birth of a two-tier financial system, whereby gold was confiscated domestically, but used internationally. Yet, when we look back to 1896, we find another major crisis.

In 1895, J.P.Morgan reorganized departing from his former alliance with the important Philadelphia family of Drexel, that was known as Drexel Morgan & Co.. It was in 1895 that the split created J.P.Morgan & Company. Nevertheless, the great financial crisis of 1896 led to J.P. Morgan gathering a consortium of world banks to bailout the United States Government. J.P. Morgan's firm sold all of a \$62 million Government bond issue. The sale ended a gold shortage in the U.S. Treasury, that had been instigated by the desire to create inflation through altering the gold-silver ratio. By valuing silver at a higher rate to gold, other nations delivered silver to the United States exchanging it for gold that led to a vast shortage of gold where in effect the Government could no longer pay its obligations in international trade.

It was the 1896 turning point that marked the economic turmoil. It was this very target year when William Jennings Bryan delivered his famous speech at the Chicago Democratic Convention.

"Having behind us the producing masses of this nation and the world, supported by the commercial interests, and the toilers everywhere, we will answer their demand for a gold standard by saying to them; You shall not press down upon the brow of labor this crown of thorns, you shall not crucify mankind upon a cross of gold."

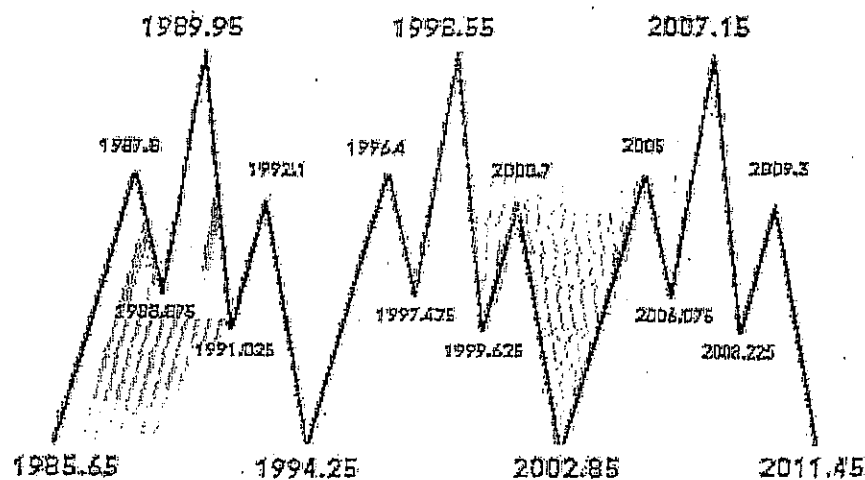
The 1896 Financial Crisis was the Government trying to deliberately create inflation at the request of farmers and silver miners. Those lobby groups fought hard and their overvaluation of silver drove gold to Europe bankrupting the federal Government.

What does this cycle suggest for 2008? Unfortunately, this is a monetary crisis cycle of major proportions. When it comes into play, we somehow end-up with changing the monetary system itself. We will be headed straight into the world of a one-currency system based upon the recent model - the Euro. The spread of the economic chaos around the world will provide the incentive to make things better. It may be held in a different location so the name will change from "Brenton Woods" to perhaps the new Treay of Paris. I see no other sololution for we are dealing with not the "greed" of Wall Street in isolation, we are also dealing with the vast debt structure that was created by endless political promises. We will not go back to the gold standard. For Smith was correct, the wealth of a nation was its people and productive capacity. But make no mistake, it is also the Rule of Law. If capital cannot be secure in the title to property and enforcement of rights - it simply leaves.

Europe knows all about cancelling currencies. Americans do not. The dollar remains legal tender since inception. In Europe, all nations cancelled currency pre-Euro every 20 years or so. There may also be the reestablishment of a two-tier currency system where the one-world currency serves between nations, and the lessor domestic version provides for citizens. This would allow more flexibility to do the default on domestic obligations covering it with new currency. During the 1870s, the United States issued two silver dollars: (1) Trade Dollar and (2) Silver Dollar. International payments were made with the Trade Dollar that was 1 troy ounce of silver while domestic silver dollars were about twenty-five percent less. South Africa also had a two tier currency, the Rand and the Financial Rand for international settlements. A two-tier is now possible.

The 37.33 Year Monetary Crisis Cycle target for 2008 appears to be a serious target that will set in motion a cascade of changes that should place stress upon the world economy going into 2011. The high dependency upon foreign capital to fund the US debt, will also tend to dry up forcing greater monetization of the debt and the inevitable collapse of the floating rate system by as early as 2011 if we get past 2008.

The 8.6 Year Economic Confidence Model

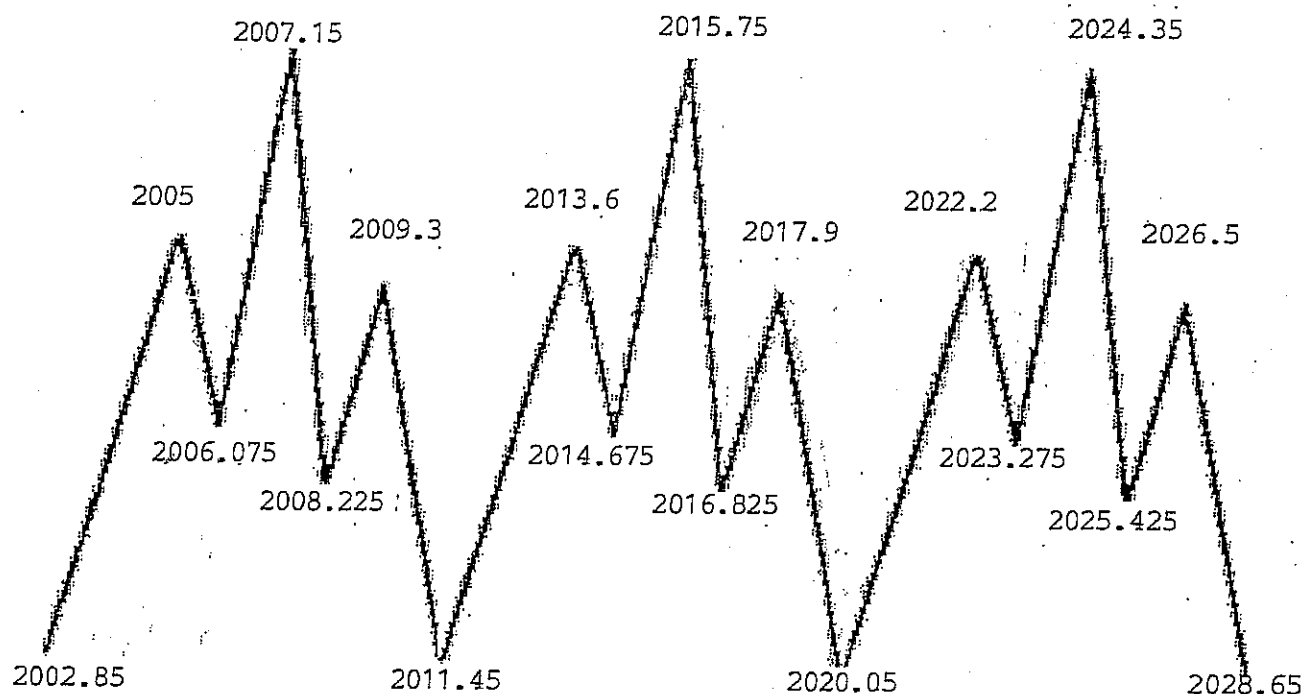


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To the shock of many, despite the lack of publishing since 1999, the 8.6 year Economic Confidence Model performed once again precisely to the day for the major top on this current 8.6 year Cycle Wave. So much for those who argued that the only reason the model worked precisely to the day was because too many people listened to the forecasts.

This model correctly showed the decline in the economy and the deflationary mode that drove the dollar into record highs for 1985. The British pound fell to \$1.03 on the major low. This was the birth of the G-5 (Group of Five now Eight) whereby nations gathered together to coordinate intervention internationally in an effort to manipulate the economy. This is when I wrote the President Reagan warning that you cannot manipulate the economy to create artificial objectives. The Chief Economic Advisor Mr. Sprinkle wrote back thanking me for the advice, but stating that until someone else had a model to support my warnings of a sharp rise in volatility, they could not rely upon only one model. When the next turning point created the volatility from world foreign exchange markets manifesting into the 1987 Crash precisely to the day 1987.8 ($365 \times .8 = 292$ days = October 19th, 1987), I suddenly was urgently called asking for what would happen now? Amazingly, it seemed everyone agreed, volatility was the number one problem. The 1989.95 turning point pinpointed the Tokyo peak that December, and the collapse into 1994.25 marked the precise day of the low for the S&P 500 that year beginning the bull market that has reached a high 13 years later in 2007.15 (February 27th). But then we also have the 1998.55 turning point that produced the high July 20th with the collapse of Russia and the retest of support for 2002.

We must realize that this model is a global model. It not based exclusively upon the US economy, markets or events. This reflects the "collective" behavior of mankind throughout the ages. If we look at the 1989.95 turning point, it is true that this pinpointed the major all time high in the Nikkei 225 as well as the Japanese economy. However, this also marked the end of communism as we knew it. In China, we saw Tiananmen Square on June 3rd-4th 1989 followed by the fall of the Berlin Wall 5 months later in November 1989. What the model is reflecting is a natural tendency to limits the behavior and ideas of mankind to defined and distinct periods. It is like holding your arm in the air. It is no problem, but keep it there. Suddenly you cannot hold your arm up any more - it is just too heavy. This model reflects a similar nature that no matter what it is, there is a limit to sustaining any trend. This is what Margaret Thatcher said to me - the Conservatives would lose because "It is just time!"



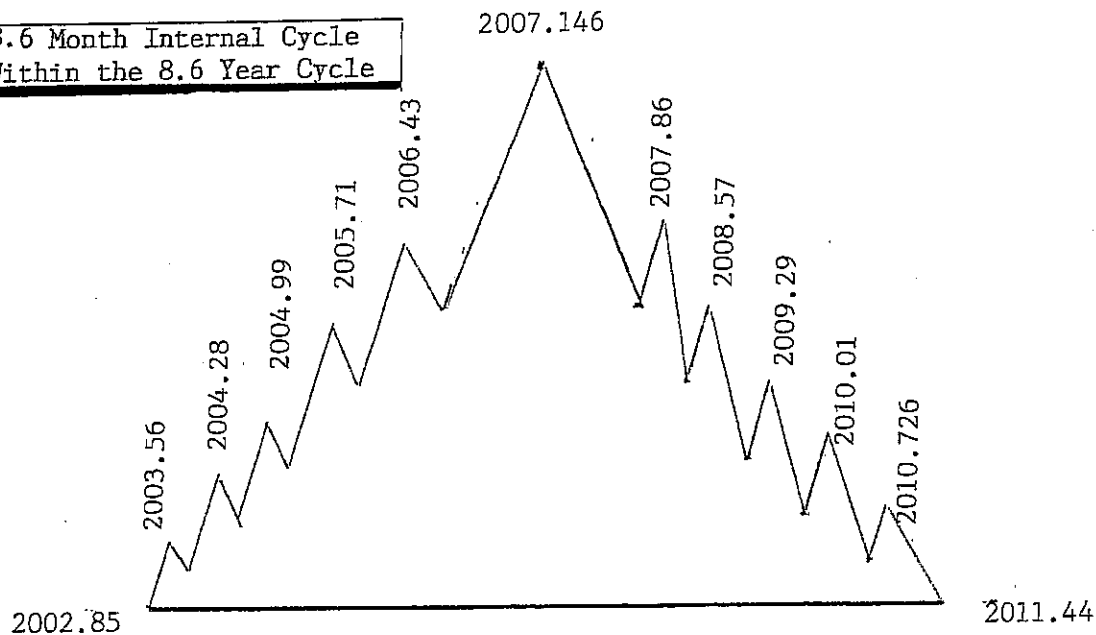
We have now crossed that peak in the current wave - 2007.15 (February 27th, 2007). we can see that the Economic Confidence Model projects out beyond my life expectancy and it will function long after I am gone as it did long before I was born. These 8.6 year waves that reflect the Business Cycle are calculated by taking the per cent of 365 days for that year. For example, 2015.75 produces $(.75 \times 365)$ that is 273.75 days into that year = October 1st, 2015. The low for this current economic devacle should be 2011.45 = June 13th, 2011.

The minor mid wave turning points break down as the first leg being 2.15 years or a quarter of the 8.6 year wave. The next quarter wave is typically broken into half again creating two 1.075 year waves. We can see that in the current wave, the mid-wave turning points were 1008.225 (March 23, 2008) and 2009.3 (March 19th, 2009). Typically, these waves do not produce specific turning points to the day as is the case at the major turning points. This is due to the fact that internally there is yet another layer of activity, the 8.6 month cycle that constitute 6 waves within each leg of the 8.6 year cycle. Again we see the structure following groupings of 6 units. This 8.6 month level of activity consitutes 37.33 weeks. There is yet another layer beneath this calculated in 8.6 week intervals, followed by still another, 8.6 days, hours, mintues and believe it or not seconds.

The hidden order does not end there. This is like a Mandelbrot set of just amazing order of patterns replication the same patter from one level of time to the next. Still, we will also shortly explore how the interaction of this core frequency I refer to as the Economic Confidence Model, with the grouping cycle that causes the self-organizing patterns of intensity (volatility). For example, taking the major high of the later 51.6 year Public Wave, 1981.35, adding the the first wave of 6 years, we arrive at 1987. This is what caused that usually minor turning point to produce the precise date for the 1987 crash, 1987.8 (Oct. 19th, 1987). The next time this 6 year wave lines wup with the 8.6 year will be 2011. Unless we understand time, we will be compelled to repeat history again.

The 8.6 Month Internal Cycle (37.33 Weeks)

8.6 Month Internal Cycle
Within the 8.6 Year Cycle



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There are 37.33 weeks within a 8.6 month cycle. Looking at the 8.6 month turning points within the 8.6 year wave structure, we have the following dates:

2002.85	11/6/02	2007.86	11/10/07
2003.56	07/23/03	2008.57	07/27/08
2004.28	04/12/04	2009.29	04/16/09
2004.99	12/27/04	2010.01	01/04/10
2005.71	09/16/05	2010.726	09/22/10
2006.43	06/06/06	2011.44	06/10/11
2007.146	02/23/07		

Note we have 6 waves within each half of the 8.6 year wave. This is caused by the parallel wave that groups 12 waves of 6 into the 72 interval wave. We can see that the difference between 2008.57 and 2009.29 is again .72% of a year. Once more we see the interjection of the number 72.

The interaction between this 8.6 month cycle within the 8.6 year cycle is critical to comprehending how the natural cyclical forces function in all aspects of our physical world. On the 8.6 year wave, the first reaction low after the major high at 2007.15 is 2008.225 corresponding to March 23rd, 2008. You will notice that this date does not appear on the list of dates above. This turning point was the low for the AMEX Oil Index, from which a rally moved into May 21st, 2008 just afterwards. Many commodities reached turning points plus or minus 1 week from the March 23rd target such as cattle, sugar, coffee, cotton, wheat, and soybean oil just to mention a few. When we compare the 8.6 month cycle (37.33 weeks), we see the target of July 27th, 2008. Here we find again turning points generally plus or minus 1 week of so. The Australian dollar reached a high on July 15th, 2008 for the year. The Mexican peso peaked August 4th. The Euro peaked on July 15th. Now if we look at the Swiss franc, the high was March 17th, 2008, the high in the Japanese yen was also March 17th, 2008. Let us now turn to the British pound, here the high is November 9th, 2007 and the Canadian dollar peaked November 7th, 2007. Looking at the above list of 8.6 month dates, we see November 10th, 2007.

<u>3/23/08</u>	<u>7/27/08</u>	<u>11/10/07</u>
AMEX Oil Index	Australian \$	British POUND
Cattle	Mexican peso	Canadian \$
sugar	EURO	NASDAQ 100
coffee	Swiss franc	
cotton	FTSE 100 Index	
wheat	DAX Index	
soybean oil	S&P Midcap 400	
	Russell 2000	
	Natural Gas & Crude Oil	

Those markets or index indicators that have peaked with the 2007.15 major wave target was the NIKKEI 225 stock index in Japan, that reached its high on February 26th, 2007 along with the debt markets and the US economy. This is not bullish for Japan. The Nikkei 225 will fall in 1932 percentage terms causing a massive selling of foreign investments that will drive the yen to ne highs again. Exceeding the highs of Dec. 1999/Jan 2000, will signal the contraction that may peak in 2009. The S&P 500 excede the Feb 2007 high, but this peaked on the *.6 month cycle on Oct. 11th 2007, just shy of the 11/10/07 target. Japan will be a key to watch in 2009.

The 37.33 Month Cycle Frequency

In "The Business Cycle and the Future (Part II)", I provided the 37.33 month frequency illustrating that there were 37.33 weeks within the 8.6 month cycle, but I also pointed out like the 72 year cycle follows the 224 year, likewise we find that major turning points often 37.33 months after major monthly turning points.

"For example, using the breakout high of 1997 in the NASDAQ 100 in January of that year projects a high for March 2000. Looking at the July 1998 major high that coincided with the model projects a low for September 2001 with high volatility. The next turning point would be projected from the July 1999 high brings us to September 2002 for a probable major low at that turning point."

Of course we do not have to go into what happened for the September 2001 target with the high volatility. That seems to be in line with the model. What we must come to understand that time is merely a dimension that can be sliced up very nicely. The key to the validity of any cycle frequency is that to verify its existance, it must appear on all levels of time.

The 37.33 month cycle is equal to 3.11 years. This also is very close to Pi being 3.141. To show the hidden order, I will for the first time publicly or even privately illustrate a point. Take the high of the previous wave 1998.554298. Add Pi in terms of years and months 3.141. This produces the date 2001.695. Take 365 days and multiply .695 yields 253.675 days into the year 2001. That amounts to September 11th, 2001. So much for the CFTC claiming that my forecasts manipulate the world economy because nobody can predict a specific day years in advance. For as much as things may appear to be random, it is more like Neo in the Matrix. Suddenly he can see not the walls, but the code.

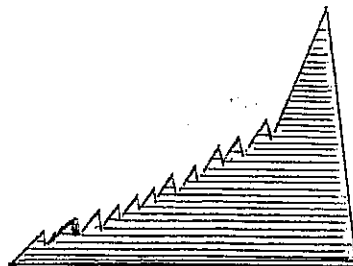
It is all over the internet thanks to former employees who believed their jobs may have been destroyed because of my refusal to work for the CIA. To clarify, after the model correctly forecast the collapse of Russia in 1998, which was covered by the London Financial Times who attended my lecture delivering that forecast in London, the CIA called the office. They recognized the power of the model, but for military purposes. They wanted me to work in Washington. I declined, offering to run any study they might like from Princeton. They declined, stating they had to own the model. It is evident, the model could pick up geopolitical events because they are preceeded by economic events. I created a model for the Universal Bank of Lebanon, that indeed predicted the war because those who knew, abnormally moved capital changing the flows.

The Self-Organizing Intensity Cycle

For decades I have explained that the **Economic Confidence Model** builds into groups of 6 waves from 8.6 years into 51.6 years that in turn build into 6 waves of 309.6 yrs. I have not before explained why this is so. Just as the electromagnetic wave has two distinct components, electric and magnetic fields moving together, all cyclical waves appear to be multidimensional beyond what the mind can see at first blush. The organizing parallel wave that creates the grouping and produces the intensity (volatility), unfolds not as a derivative of the 8.6 year cycle, but is entirely independent.

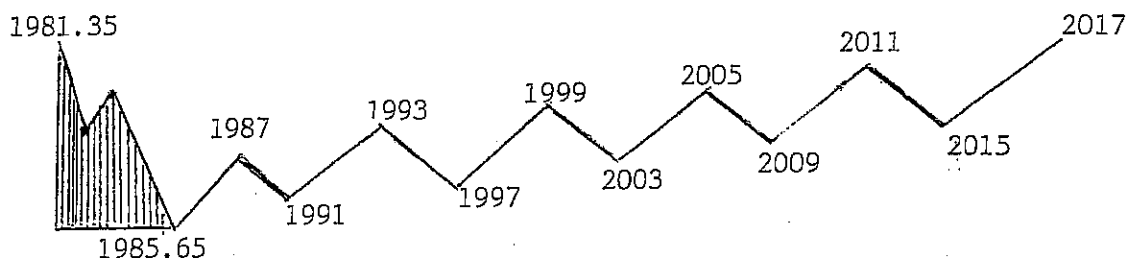
72 Year Intensity Cycle

12 Waves of 6 yrs



The core frequency comes in waves of 6 units of time. These build up into a larger wave of 72 that flows at twice the formation of the **Economic Confidence Model**. The unit of 6 is transferred to the 8.6 year wave causing it to group in formation of 51.6 years. But this does not disturb the independent intensity frequency itself, which means we still have a parallel effect that will appear in all activity similar to a "giant" or "rogue" wave insofar as it may appear to be coming from nowhere.

This was illustrated with the 224 year Cycle that is a derivative of the 8.6 frequency. After every 224 years, we see a 72 year catastrophe that appears to come unrelated to the 8.6 year or 224 year cycles, inasmuch as it is merely a derivative of the 8.6 year wave. If we begin with the last peak on the 51.6 year **Economic Confidence Model** we can see again how the 6 year intensity wave running parallel had collateral effect.



Note that if we use the high (1981.35) and the low (1985.65) of the last 51.6 year **Economic Confidence Model** that marked the high in inflation and the formation of the G-5 (Group of Five Nations) to coordinate global economic manipulation that is now coming back into vogue, projecting forward only the **Intensity Cycle** using the unit of 6 years, we arrive at the 1987 crash, the 1999 low in gold, and numerous other turning points, with the intensity once again pointing to 2011. We can see also 2009, but this should provide the reaction high that may form during the first or second week of March of that year. However, we can see that 2011 is coming up on numerous waves that are independent, suggesting very strongly that we are indeed facing a major **Great Convergence**.

There is yet a deeper level of the self-organizing nature of this wave. This requires far more complex math that is fractal based that creates the self-referral to replicate continual patterns of organization.

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We have all heard that in particle physics, scientists are searching for the unifying theory and have surmised that just simply stated, there must be a mysterious particle that exists they have called the "God Particle." Whether this is the same

thing, I am not entirely sure. Perhaps it is a coincidence. But what I can say, it presents an interesting subject for debate that is more real world than the DaVinci Code.

The "Born-Again" Christians or Fundamentalists have been looking for the sign of the **Second Coming** of Christ based upon the story of the **Apocalypse** found in the **Revelations** of the New Testament said to have been written by Saint John the Divine while he was in exile in the Isle of Patmos. Aside from the fact that this book has been the most widely disputed for hundreds of years leading even Saint Jerome to so declare that it was subject to 7 entirely different interpretations, nevertheless, its controversy has endured the ages. The famous story of the Anti-Christ and that we shall know who he is by the number of his name, 666, is a reflection of the old number systems. Before the introduction of numbers as written distinct from letters by the Arabs, both the Hebrew and Greek alphabet composed of purely letters, served also as the number system. For example, A-J would represent 1 to 9, K=10, L=20, M=30, N=40, O=50, P=60, Q=70, R=80, S=90, T=100, U=200, V=300, W=400 and so on. It was the Romans that created numerals that were specific letters to represent numbers as IX=9, X=10, XI=11 for example. Therefore, what is meant by the phrase that we shall know someone by the number of their name is to use the old system assigning a value to each letter in a name and adding them up.

The reason I have chosen to refer to this particular cycle as the "God Cycle" is not to just follow the line of particle physics, but because the frequency of this cycle seems to be extremely profound both in the activities of man and nature. It happens to match, albeit perhaps by coincidence, the numerical number in Hebrew for the name of God - "Jehovah" that is illustrated in ancient Hebrew above. In Hebrew that reads in the opposite direction, it is "He Vau He Yod" that we translate to English as "Yod-He-Vau-He" making the word "Jehovah."

Just about everyone knows the "666" omen, but strikingly, most do not know the number of the name the Jews gave to God - "Jehovah." If we use the old Hebrew system we can find the number of God. Yod = 10, He = 5, and Vau = 6. Therefore, the name of God in Hebrew He Vau He Yod equals $5 + 6 + 5 + 10 = 26$. The number of the name assigned to God by the Jews is 26.

I explained that I discovered the 8.6 year cycle by adding up the total number of financial panics between 1683 and 1907, which created a time-space of 224 years. I found that there were 26 financial panics and then divided that into the 224 years to obtain an average. That produced the 8.6 year frequency. Only when it began to project to specific days, then I decided to study much deeper. There is the fact that it appeared to be intricately complex running concurrent with countless other cyclical behavior be it natural or man himself in a sort of time-space tube created by an interdependent, self-referral field network whereby, the output of each and every iteration becomes the input for the next generation perpetuating patterns of order in such a dynamic structure, that one cannot see the order of the whole for the mask of superficial chaos. There simply is yet a separate and distinct core frequency of 26 running through the center of the field causing not merely **Phase-Transitions**, but also **Phase-Shifts** and **Phase-Cancellations** when two cycles indeed collide of equal yet opposite forces.

1929 - 1955 - 1981 - 2007

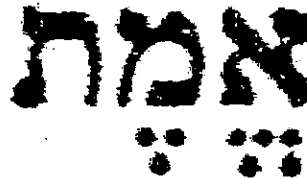
The above sequence of dates provides a simple demonstration of the interesting relationship of 26 to the Economic Confidence Model. The high on the last Private 51.6 yr Wave was 1929.75. If we simply take the annual count of 26, we produce the above time series. The great expansion of U.S. debt began from the 1955 post-war target where spending without regard to maintaining the ratio to gold may safely be defined as the start of the perpetual spending. The next target 1981, was the high of the Public Wave of 51.6 years marked by the peak in interest rates and the open battle against inflation. This brings us to 2007, where the model has correctly given the high 2007.15 that targeted to the day, the start of this economic decline.

Previously, we looked at two time series, one beginning from 1775 marking the start of the American Revolution, contrasted with 1788 that marked the beginning of the federal government with the Constitution. The differential between these two series is half the 26 cycle - 13 years. It is twice 26 that produces the number 52 that we will see is central to the Maya, but was also the observation of the commodity cycle noted by Kondratieff - the Russian economist. We can see that the timing interval of 26 is a critical and interesting number to say the least.

Whether 26 is the "God Cycle" is interesting. Hipparchus of Rhodes observed around 150 BC that the equinoxes moved with time. This is where the Sun's path crosses the celestial equator. He realized that these were not fixed in time and space but traveled in a cyclical manner. The movement was extremely slow in a westerly direction. This amounted to but less than 2° in about 150 years. This slow movement is known as the "Precession of the Equinoxes" and requires generations to even observe. It is less than 2° movement every 150 years, bringing this also to a virtual number of close to 26,000 years to complete one cycle.

Truth = the Rule of 9

Another kabala number of mystery has been attributed to the famous Gaon From Vilna who discovered that the Hebrew word for truth (taf-mem-aleph) produces the number taf= 400, mem=40, and aleph=1 added together $441 = 9$.



It was argued that God created the world based upon truth, which is the number 9. If you take any number greater than 9, add the individual numbers, and subtract the original, we end up with a number divisible by 9. For example, $10=1 - 10 = 9$. $150=6 - 150 = 144 / 9 = 16$; $278=17 - 278 = 261 / 9 = 29$. The examples are obviously endless: $3255 = 15 - 3255 = 3240 / 9 = 360$. Whether this proves God created the world upon "truth" is open for debate. But it certainly produces a very interesting mathematical mind-twister.

Revelation of Fibonacci

Fibonacci perhaps became more widely known with the DaVinci Code where the numerical sequence written on the floor was the combination to the vault. This is the name by which he may be known, but the real name of Fibonacci was Leonardo Pisano. Perhaps the name is a ridicule meaning "blockhead" coming at a time when knowledge poured from the East was seen as perhaps evil by some. Whatever the reason Pisano was stuck with the name Fibonacci, has long been lost in time. Yet, Fibonacci today is widely used by technical analysts stemming from his study of rabbits in Liber Abaci.

Fibonacci was presented with a problem. How many rabbits will be born in the course of one year from an original pair of newly born rabbits? Rabbits can start to breed after only 2 months from birth. Fibonacci assumed that every month a pair of rabbits would produce another pair. He concluded, at the end of the year, there would be 233 rabbits from the original pair. He starts with 1 pair who do not even breed for 2 months. By the fourth month, the original pair's offspring would start to breed on their own. This exercise produced the famous Fibonacci sequence:

1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, 233

If we dive deeper, we can see the relation between each number both moving in a forward and backward direction. For example, let us take a number and divide it into the previous number.

1 / 2	=	0.5
2 / 3	=	0.666
3 / 5	=	0.6
5 / 8	=	0.625
8 / 13	=	0.615384615
13 / 21	=	0.619047619
21 / 34	=	0.617647058
34 / 55	=	0.618181818
55 / 89	=	0.617977528
89 / 144	=	0.618055555
144 / 233	=	0.618025751

The above table shows the precise calculations. They are rounded to 0.618 which the Greeks called the "Golden Mean" upon which all proportion is based. If we divide the higher number by the lower number, we end up with 1.618 (rounded). Now we are ready for the next interesting proof. If we take the square root of 5, 2.24, -1 gives us 1.24 and divide that by 2, we return to 0.618.

Before, I explained that I discovered the Economic Confidence Model by starting with a series of panics between 1683 and 1907 that equals 224 years in time with 26 panics therein. Taking $224 / 26 = 8.6153846615$. Now look at the Fibonacci number above $8 / 13 = 0.615384615$. This is the same decimal of the 8.6 calculation. If we look at the square root of 5, we also see $2.24 \times 100 = 224$ years. If we use the Kabala method of reduction adding every digit irrespective of the decimal point, and we subtract 1, the proof becomes $86153846615 = 53 - 1 = 52$, twice the unit 26.

The Mystery of the Maya

There has been of late almost a cult awaiting the fateful day when the Mayan Calendar reaches its end on December 21st, 2012. Of all the calendars devised by man, there is truly nothing like the Maya investigation. They seem to be an ancient people who understood time. How, I am not sure. But their calculations are astonishing and are not based upon the planets, but upon the cyclical forces of nature that they perceived. They certainly thought dynamically, rather than linear, suggesting a more Asian foundation compared to European.

The number 26 also shows up in the Mayan calendar that is quite remarkable. The calendar consists of a ritual cycle of 260 named days and a 365 day year. Both are running in a complex concurrent relationship. These components combine creating a cycle of 18,980 days constituting 52 years of 365 days known as the "Calendar Round" where at the end a specific day designated in the 260 day cycle returns to the start insofar as it recurs in the same position in the year. The 260 day cycle is formed by the combination of numerals 1 through 13 that meshes with a rotating wheel of 20 names in an ordered sequence. If we take 260 days and divide by 5, we end back at 52.

The Mayan calendar is complex, shows dynamic thinking, and is far more intriguing from a mathematical perspective. The 365 year cycle was divided by 18 named months of 20 named days, with 5 days of mystic evil omen. The Mayan named years based upon the first name of the day that appeared. However, the 365 days could be divided by 5 yielding 73 days (close to the 72 intensity cycle) and the number of named days being 20 was also divisible by 5, resulted in only 4 names combined with 13 numbers that could ever begin a year. These seem to be called "Year Bearers" and were assigned according to the 4 quarters of the world and were given 4 specific colors. This becomes akin to the saying involving the 4 corners of the world, and the 4 winds.

The manner in which the Mayan recorded dates is still complex and shows a highly tuned style of dynamic thinking rather than linear. To specify a date in the "Calendar Round" they use the designated day by its numeral and name distinction, and added the current month by prefixing the number of days that had passed with the corresponding number for that month using 0 - 19 rather than 1 to 20. A date written in this curious manner would occur only once in every Calendar Round resulting in intervals of 52 years.

Yet the Maya were still concerned about reflecting time in a much longer space dimension. The Mayan show a dynamic thinking process for time and a keen sense of history that they needed to be able to reflect. The Mayan devised the "Long Count" that was based upon a system of a count of - 20 -, they strangely used 18 as the multiplier ($18 \times 4 = 72$). Therefore, the dates were written as: kin (day); uinal (20 days); tun (18 uninals or 360 days); katus (20 tuns or 7,200 days); baktun (20 katuns or 144,000 days). Why the Mayan used 18 as the multiplier is unknown. Perhaps they noticed the volatility of history perhaps instigated by nature. The "Long Count" was a means to anchor time in a continuous time-space dimension that they could see in their mind. They anchored time to 4 Ahau, 8 Cumku, which was equal to 13 baktuns that was 1,872,000 days (or 5128.76 years of 365 days in our mind). It is clear from the calendar alone, that the Maya conceived time as a dimension through which history is formed, but was a cyclical event of self-organizing structure. The basic elements of the Mayan calendar have little to do with astronomy. The Mayan seem to have placed great significance on cycles. There is the curious 819 day cycle ($13 \times 9 \times 7 = 819$) that also shockingly produces 2.24 years! The hidden order exists - it is not chaos!

The interesting aspect of the Mayan calendar is its concurrent and dynamic structure of time that is closer to what I have described from independent observations having nothing to do with planetary movements. The use of both the 72 and 26 units of time is striking. The Aztec calendar followed the Mayan in many respects but incorporated a 584 day cycle from the planet Venus and two 52 year cycles were considered "One Old Age," when the day cycle, the year, and the period of Venus all came together. These were also noted by the Mayan, but were more important to the Aztec. All Meso-Americans believed in the cyclical destruction and re-creation of the world in these great sweeping periods of time.

The core of the Mayan Calendar is that the world is destroyed and reborn time and time again. While they see the end of this world on December 21st, 2012 that will erupt from earthquakes, that is a separate issue that lacking the data of the previous cycle from which the Maya start their calendar, there is no way to now project forward to even test the theory. Like most religion, this falls into the area of faith - not math.

Calendars based upon the moon cycle of 19 years, known as the Metonic Cycle named after Meton of Athens in 432BC or the solar cycle of 365.25 days or the 28 year cycle when the same day repeats with the same number under the Julian Calendar, have created interesting math calculations. The Julian calendar Cycle = 7,980 years produced by $19 \times 28 \times 15$. The last 15 year cycle is the Roman tax and census cycle of Indiction. There are calendars based upon Jupiter and its 12 year cycle. But all are cyclical based.

The Concept of Self-Referal

Everything in nature seeks to recreate itself by generating a copy of itself that refers back to the original entity. Our children look like us, albeit at times a blending of both parents. Nevertheless, this is nature's way of extending the cycle of life through the process of self-referal to achieve propagation. Whatever you may believe, the entire process of the universe is based upon replication to progress forward into time. It may indeed appear to be "chaos" so we dare not to look too closely. But there is a single system of self-referal that allows all things to propagate from a virus to all forms of life. But this extends even further into nature that creates whether, volcanos and earthquakes to how we even behave in a group.

The system of self-referal is a complex process that is a fractal, revealed by Benoit Mandelbrot of Yale. Physics has referred to this as a relationship of a "power law" because the distribution is described with an equation containing a exponent or pwer. Hence, a variable is expressed as an exponential power of the other such as $f(x) = x^{-a}$ where the product becomes the starting point for the next. Mandelbrot demonstrates remarkable order existed hidden within what seemed random.

At the core of all cyclical behavior, is this very concept of self-referal that is a means of perpetuating the cycle. It dictates that the people will indeed respond in the same manner irrespect of the century, because human nature does not change. There is a third inherent wave structure, that is far more complex than anything we have been looking at so far. It moves with the same waves and may be akin to a carrier wave upon which all others travel through time-space. This is the wave that recreates the patterns, whereas the other waves effect amplitude through intensity (volitility) whereas the main waves vary in wave length that indeed create different effects, similar to varying the wave length can change the the wave effect from x-rays, visible light, to television. Change the wave length, we change what the wave controls both in nature and within the human response. But it the Schema Frequency that is a carrier wave of patterns operating independently within the other wave structures. This is the core of hidden order that others are just now starting to discover in other areas of activity.

Unraveling The Mystery of Time & Space Creating Replicating Patterns into the Future

The Scheme Frequency

Everything in nature appears to be on a quest to replicate itself. We are indeed faced with what may appear to be chaos, but in reality, there can be no true random chaos, for the system cannot survive as if it were a rogue system that would soon cause its own demise. The entire universe is constructed upon the model of self-referal that replicates perpetually into the future. This is a delicate complex pattern of interaction combining to create space, time, matter, motion, and energy. It is the interaction between these elements that create the beat or pulse of the universe that flows in waves of energy in a cyclical motion. But there are patterns that exist, which some observe as in technical analysis, but what they are doing is scratching a surface of extraordinary complexity hiding a simple state of incredible order.

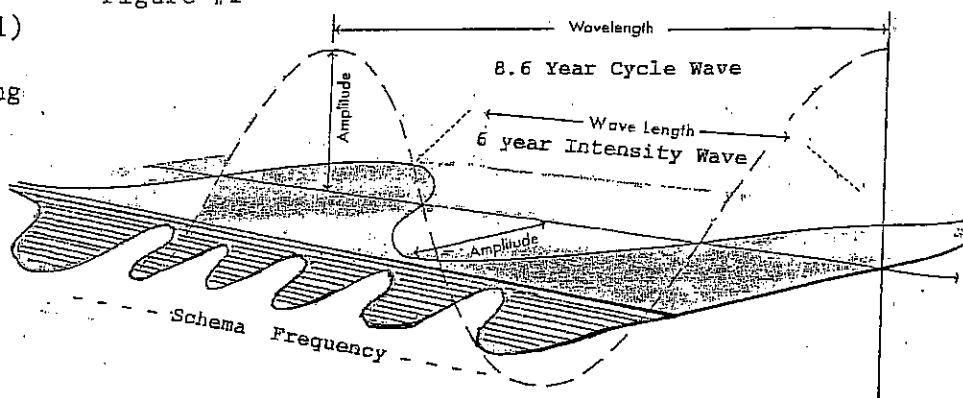
There are complex non-linear example in nature that apply to human behavior. A bucket of water with a strong faucet source will cause a vortex as the water flows into the bucket. The water jet will create a transverse vortical motion relative to the water source itself. Electricity flows the same way creating a field transverse to the current itself.

A non-linear example from the real world took place between 1980 and 1985. The issue arose with the US National Debt hitting \$1 trillion in 1980. We all judge others by ourselves. Consequently, the Europeans judged in their eye the options facing the United States and presumed that the US would default on its debt by cancelling the currency, and replacing it with domestic and external dollars. Like South Africa, the Europeans expected the US to create a "financial" dollar for international settlements and a domestic dollar. This was not unlike the two silver dollars minted during the 1870-1880 time period. However, instead of the silver "trade" dollar being 1 ounce with the lessor valuable silver dollar of about 75% silver by weight for domestic use, the Europeans were convinced that the tables would be turned and this time it would be the Euro-dollars that would be worth less than a domestic dollar. Despite the escalating debt, the Europeans withdrew their Euro deposits and switched them to domestic dollars. This drove the dollar to record highs going into 1985 where the British pound fell to \$1.03. This shifting of deposits created a transverse wave with an effect opposite its intention. The capital flows from Euro-dollar to domestic dollars created in a technical sense, a "bear rally" or "short-covering-rally" where the underlying intention is opposite of its appearance. This extreme economic pressure was again misunderstood by government that responded by creating the G-5 to manipulate the global economy.

Illustrated here is a tripartite wave (Fig #1) with three distinctive components, each providing a separate effect within time. These segments are:

Figure #1

- (1) 8.6 Year Wave
Economic Confidence Model
- (2) 6 Year Wave
Intensity (volatility)
- (3) the Pattern of
Self-Referal
The Schema Frequency



So far I have discussed the 8.6 year wave publicly for nearly 30 years. I have provided volatility forecasts and even warned the White House back in 1985 not to bring in G-5 that volatility would rise dramatically. I received a reply from Mr. Sprinkle, the Chief Economic Advisor at that time, that I was the only person with such a volatility model and until someone else agreed with my warnings basically - Thanks but no thanks! By 1987, I was urgently summoned to "hurry-up; we need to know what your model projects now, since everyone agrees, volatility is the number one problem? I have not per se explained the interconnectivity between the two models, preferring to keep the details to myself until I was ready to retire. Likewise, I have discussed that the frequency must exist on all levels of time, but this is the first time I am trying to explain yet another mystery - the Schema Frequency that is an embedded version similar to a code like DNA itself. It is a map of how things will unfold that simply is astonishing.

We know that DNA is revealed in a sequence. It is a complex code that is the map as to who we are and how reading that code in the womb (DNA Reader) constructs a human person. The Schema Frequency is a pattern of self-referal that is a third component of the wave that may even be a carrier wave upon which others become manifest. It dictates how the future will unfold on a pattern perspective while the other wave structures influence the effects and amplitude with intensity.

I intend to publish a more detailed analysis of the wave structure in the future. But in a basis concept, the Schema Frequency is the blueprint so to speak of a far more complex nature. For years I taught at seminars around the world that bull markets and bear markets are fundamentally different in timing and pattern development. I explained that the core basic bull market wave is 7 units and the bear market is a unit of 2. I also explained that the fundamental difference is caused by confidence itself. It simply takes people longer to trust and believe in anyone or something, than it takes to lose that confidence. Therefore, the timing lengths for a bull and bear market waves unfolds as:

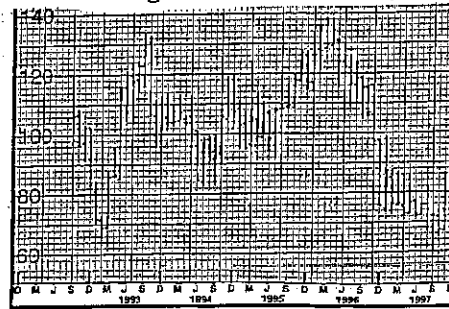
Bull Markets

7 - 11 - 14 - 21

Bear Markets

2 - 3 - 5 - 6 - 10

Orange Juice Monthly

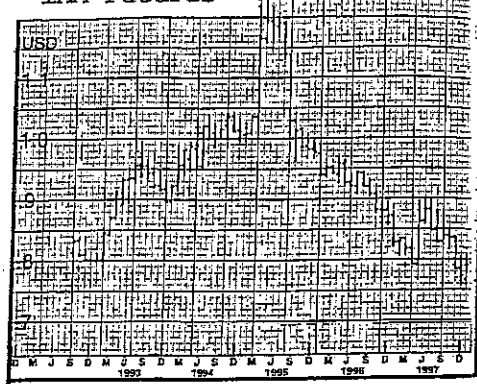


If we look at Orange Juice on a monthly level between 1993-1996, we can see that there was a straight 7 month rally from the low in February 1993 that reached a high in September 1993. This was followed by an initial 2 month sharp collapse into November 1993 with a brief 4 month consolidation followed by another thrust downward into a July 1994 low - 10 months from the February 1993 high. This is then followed by a steady drawn out rally that lasted 21 months into the highest monthly closing in April 1996. These patterns emerge no matter what the market because it is not the object we are tracking, but the human interaction with that object. For this reason, these patterns are consistent regardless of the market. The major high in 1929 was followed by the major low for the Great Depression in 1932 - precisely on the 3 count.

This is not the Schema Frequency, but merely a glimpse. The Schema Frequency is far more complex and will take a lot more math and explaining to reveal it in a proper manner. Nevertheless, it is a cycle wave of varying wave lengths that takes place in a specific pattern that repeats over and over again. This is why I have explained it is more akin to DNA insofar as it is a true map of the future that impacts the other wave frequencies. As shown above, this is a mere glimpse of a pattern that is embedded within everything, no matter what we are looking at. It is a map with the component structure hidden deeply in a fractal or self-referral that creates life within collective society so to speak. Incorporated within this structure is the Phase-Transition that causes the dramatic shocks that appear to emerge from nowhere.

The Phase-Transition is the exponential chaotic move that is limited to a timing phase of 2 on the minimum to 3 on the outside or to be precise 3.141 meaning Pi. Even looking at gold back going into the 1980 high at \$875 on January 21st, we see the price more than doubled during the last two months of the rally. Now look to the right at the Japanese yen. We see a 2 month exponential rally into April 1995. The most dramatic moves always take place in the shortest amount of time.

Japanese Yen IMM Futures



Comprehending Time

Kondratieff was executed by Stalin for his courage to explore economic cycles. Schumpeter was greatly influenced by Konradtieff and sought to explain why such booms and busts took place. Schumpeter was also trying to cope with Marxism and this was reflected in his later work, Capitalism, Socialism, and Democracy (1942). Schumpeter worried that in the quest to balance incomes through state socialism, we would kill the waves of innovation he believed created the business cycle. Yet Adam Smith was still correct. It is not just the self-interest of the individual, but the self-interest of the state that also creates the cycle. The real difference between Capitalism and Socialism/Communism, is the difference between liberty and a controlled economy. Who really benefits from a controlled economy? It is the state for they perceive their power as omnipotent. Kondratieff threatened Stalin for his work into cycles, implied the ultimate failure of Communism, although he did not expressly state that in his 1926 study, Long Waves in Economic Life.

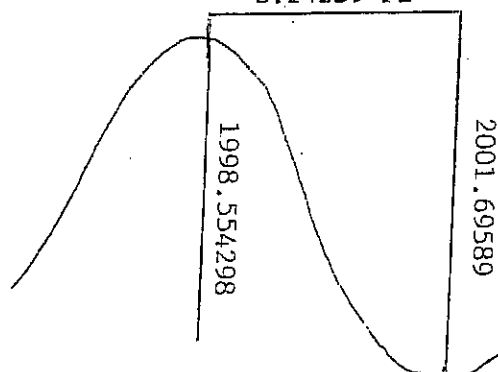
It has been the "big" houses that ban together to manipulate markets to obtain those perceived "riskless" trades that has put the entire world economy at risk. The CFTC and SEC are merely corrupt cops, who overregulate the less important small firms, while turning a blind-eye to the "big" firms. These firms were responsible for the insane accusation the CFTC made in a subpoena that I was "manipulating the world economy" basically because no-one could really create a model that would forecast a specific date 7 years in advance and watch it happen. The CFTC became merely the tool as the law was to Stalin.

Stalin had Kondratieff killed because he did not like his forecasts. We see the same pattern of an abuse of power when Galileo supported Copernicus and argued that the center of the solar system was the sun, not the earth. His death sentence was commuted to life in prison for his confession or recant of those theories. We also see Socrates was sentenced to death for his philosophy that the great democracy of Athens argued corrupted the youth. Plato recorded the trial of Socrates and his reply that he feared not death, for there were only two such possibilities, (1) a migration of the soul to a place where his old friends now awaited, or (2) it was a sleep so peaceful, one is not even disturbed by a dream. Plato fled Athens, vowing he would not allow two crimes against reason.

The list of casualties is long indeed. The state often does not like confrontation and don't think that somehow the United States is different - remember McCarty To demonstrate that the model is not about markets, but marekts are merely the refelection of human behavior, to the right is an illustration of taking the peak in the last 8.6 Year Wave of July 20th, 1998, and then projecting forward using simply Pi, and we come to precisely September 11th, 2001. Let us stop the nonsense and begin to respect that there is a hidden order to time itself.

September 11th, 2001

3.14159 Pi



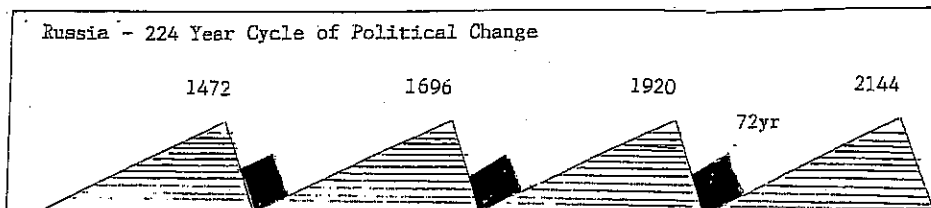
Socrates debated Thrasymachus, which was recorded by Plato in his Republic. Socrates argued that in a Democracy, because the people were in charge, justice would always be done. Thrasymachus argued, all governments are the same no matter what their form, for all laws are passed only in the self-interest of the state, which is the stronger. The state punishes those it claims violates its laws, and thus justice is always the same, it is merely the will of the state, who is the stronger. They killed Socrates - Thrasymachus was correct.

Russia & The 224 Year Cycle of Political Change

In the Business Cycle And The Future (Part II) Dated October 10th, 1999, I provides a brief historical review of the 224 Year Cycle of Political Change for the Western World, that included Russia. I explained that what thrust Russia both into a national state and a learned culture, was the collapse of the Roman Eastern Empire - Byzantium in 1453AD. The Ottoman Empire began in 1326AD and was on a course of conquest that resulted in the fall of Constantinople in 1453AD under the reign of Sultan Muhammad II. While the fall of Constantinople led to the spread of knowledge by the flight of scholars to Rome beginning the Renaissance in Western Europe, it was this same flight that altered the course of Russia. The niece of the last Byzantine Emperor Constantine XI, Sophia Paleologa, fled to Russia and married Ivan III (The Great)(1462-1505). Sophia brought her court with her, but the critical contribution that set Russia on the course to world recognition, was the acquisition of knowledge.

Early history of Russia can be divided into three 224 year cycles of Cimmerian Rule, followed by $1\frac{1}{2}$ cycles of Scythian Rule, $1\frac{1}{2}$ cycles of Sarmatian Rule, with the invasion of the Goths in the 3rd Century followed by the 4th Century invasion of the Huns in 370AD. Upon the death of Attila in 453AD, it was the Avars who took control, although they were closely related to the Huns. This was followed by the Khazars who were overrun by the Slavs in the 9th century. The first written history came only in the 12th century. According to these records of the Primary Chronicle, it was the Vikings who invaded in the later 9th century invited by the Slavs, from whom Russia is said to have taken its name - the Varangian Russes.

Russia fell to the Mongols led by the grandson of Genghis Khan that destroyed the capital Kiev in 1240AD. Moscow began to rise as a city in the 14th century. The Moguls were fierce warriors. Genghis Khan had tried to conquer China, but broke off his invasion in 1218 and turned toward the West. He dies in 1227AD, and it was his grandson who turned back to conquer China in 1279. His dynasty fell in 1368, and so was the fate of the Mongolian Empire.



Against this backdrop, we come to Ivan The Great and his Marriage to Sophia in 1472 that appears to begin the blossoming of Russia into a world power. Ivan created the first Rule of Law that is the cornerstone of all national wealth. This foundation of law in 1497 was predicated upon the legal code of Justinian I of Byzantium. We can see from the above illustration of just the wave formations starting with the birth of Russia into a modern state, the turning points line up with the Revolution in 1917, the fall of economy power in 1989, that was followed by the resignation of on December 24, 1991 marking the official collapse of the Soviet Union within weeks of the turning point starting with the marriage of Ivan and Sophia.

Starting in 1472, we come to 1696 which is the year Ivan V died handing power to Peter I The Great (1682-1725) after the 1689 Revolution that swept Russia also following the 1688 Revolution in England. 72 years after 1696, we come to another revolution in sympathy with the US and France under Catherine The Great that was crushed in 1775. The next revolution was 1917 and 72 years later we come to 1989. Projecting in intervals of 37.33 years from 1917, we come to the collapse of 1991 within weeks, with the next target projected to be 2010.325 (April 28/29).

China & The 224 Year Cycle of Political Change

The historical review of the political course of events in China is a long one. We have seen numerous governments rise and fall since the first real strong dynasty that we can draw the line to define China as a major single nation - The Qin Dynasty 221-206 BC. We can see that civil war plagued China in the same time frame as in the United States, 1851-1864 known as the Taiping Rebellion. We also see in 1900 the famous Boxer Rebellion where foreign nationals were murdered. We see rebellion again in 1912 with the forming of the Republic of China, however, in 1917 where there is the Russian Revolution, the same unrest spread to China. Note 202BC is the rise of the Han Dynasty, the same year when Rome defeated Hannibal.

Just as major political change unfolded with Franklin D. Roosevelt and the nonviolent "New deal" came to power in 1933, the same economic pressures brought Hitler to power in 1933. When we look at China, we also see the rise of Mao Zedong who led the famous Chinese Communists on their Long March to Shaanxi. By 1949, the Communists defeated Chiang Kai-Shek who flees to Taiwan, and the new People's Republic of China emerges.

If we look at just one 51.6 year wave calculated from 1949, the beginning of the People's Republic of China, we come to 1989 and the start of the swing back to capitalism with Tiananmen Square on June 3-4, 1989. We can see the contagion effect for within just 5 months, the Berlin Wall falls by November 1989. Russia withdrew from Afghanistan also in 1989 in line with the 1989.95 Economic Confidence Model.

We find that in 1917, Sun Yat-sen set up a rival government in Guangzhou as the Nationalists. We can see that 72 years from this new government brings us to Tiananmen Square in 1989 and the start of the new age of Chinese controlled capitalism. In 1919, Sun Yat-sen reorganized the party that in 1928 was led to victory by Chiang Kai-shek. It is interesting that the takeover of China by the Communist party influenced by Karl Marx comes on the 224 Year Cycle of Political Change, i.e. Mongols in 1279 (1279 - 1503 - 1727 - 1951). We can see a wealth of cyclical trends back-and-forth warning that 2021 could be a very explosive year in China.

The modern-day warlords of capital want more freedom. These pressures are now being felt. After opening the doors to controlled capitalism, if the contagion hits hard in China, any expectations that they will buy debt to stimulate the US economy may evaporate. It is hard to pretend China does not honor American standards of human rights (when America has its own issues), and then go hat-in-hand soliciting help to buy the debt. 72 years from 1934-35 Long March of Mao is 2007-2008. It is just time again.

China - Important History

- c. 1766-1122BC Shang Dynasty (First)
- c. 1122BC Zhou overthrew Shang
- c. 500BC Confucius established moral values
- c. 256BC Zhou dynasty falls in west
- 221-206BC Qin Dynasty (1st central gov't)
- 202BC-220AD Han Dynasty
- 581-618 Sui Dynasty
- 618-907 Tang Dynasty
- 960-1279 Song Dynasty
- 1275-1292 Marco Polo claims to visit
- 1279 Mongols conquered China
- 1368-1644 Ming Dynasty
- 1644-1912 Manchus ruled as Qing Dynasty
- 1842 Treat Nanjing = British Hong Kong
- 1851-1864 Taiping Rebellion
- 1900 Boxer Rebellion (killing foreigners)
- 1912 Republic of China established
- 1917 Sun Yat-sen established rival gov't
- 1919 Sun Yat-sen reorganizes Nationalists
- 1928 Chiang Kai-shek lead Nationalist Gov't
- 1931 Japan invades Manchuria
- 1934-1935 Mao Zedong led Communist march
- 1937-1945 War with Japan shattered China
- 1949 Communists defeat Nationalists
- 1958 Great Leap Forward depresses economy
- 1962 border war with India
- 1966-1969 The Cultural Revolution
- 1971 China joins United Nations
- 1972 President Nixon visits China
- 1976 Mao Zedong dies
- 1979 China & US begin diplomatic relations
- 1980s Reform to relax Gov't controls
- 1989 Tiananmen Square protest

The Concept of Leverage

Leverage is inherent throughout capitalism. After the fall of Rome, the Catholic Church adopted the "sin of usury" holding that if you were a Christian, you lent money to a person to help him, not to exploit him with interest. The bankers were the Jews because both the Catholic and the Muslim forbid the earning of interest. The Protestant Reformation is where the capitalism truly begins because it allowed the banking industry to become Christian, and thus expanded widely throughout Europe. Spain had borrowed so extensively upon its expected treasure from America, that out of financial desperation, it moved to take England in part hoping to pay its debts to the Venetian bankers. Of course, the Spanish Armada was destroyed in 1588. Spain defaulted on its debts destroying the Italian economy with it. The banking industry moved to Germany, the Dutch took it over, and then the British.

Borrowing money leverages the economy as a whole. For example, houses in the United States were more expensive than Europe in general. The primary reason for this was the 30 year mortgage. If you can borrow 30 years into the future, then the price of the real estate will rise in proportion to available purchasing power. If you can only borrow 10 years out, housing prices will decline in direct proportion. If you cannot borrow at all, you get to the Dark Ages in that property will only change hands at full value. This is the concept of capitalism that Marx failed to consider. Marx saw employers being able to exploit workers to the point they would be unable to consume creating the collapse of capitalism. He failed to realize that the Invisible Hand of Adam Smith would prevent the trend, but also applies to a state.

The role of the bank has changed considerably from the 1600s. Banks grew as a guarantor of "real" money. When money was purely the circulating gold and silver, there was a big problem with clipping and shaving down the coinage. This is why the coins in your pocket have "reeded" edges to prevent clipping that really does not happen today. International payments in the form of a Bill of Exchange took place because payment in coinage could be even 10% less than the official weight. Thus, the bank became a means to secure "real" money in international trade. (Wealth of Nations, Book IV, Chp III, Part I). Banks were to hold coin, and issue receipts. No one could withdraw funds, except upon a receipt that became an early form of circulating paper money. An invading army, could even buy up the receipts at a premium in advance of an invasion to ensure that the treasure would be there, and not used for military advantage. Yet Smith commented upon the early forms of "leverage" created by banks.

"A particular banker lends among his customers his own promissory notes, to the extent, we shall suppose, of a hundred thousand pounds. As those notes serve all the purposes of money, his debtors pay him the same interest as if he had lent them so much money. This interest is the source of his gain. Though some of those notes are continually coming back upon him for payment, part of them continue to circulate for months and years together. Though he has generally in circulation, therefore, notes to the extent of a hundred thousand pounds, twenty thousand pounds in gold and silver may, frequently, be a sufficient provision for answering occasional demands. By this operation, therefore, twenty thousand pounds in gold and silver perform all the functions which a hundred thousand could otherwise have performed."

Wealth of Nations, Adam Smith 1776, Book II, Chapter II

Smith explains that 20,000 becomes the equivalent of 100,000. Today, the ratio is 6:100 and the derivatives have increased it dramatically in interbank markets that are unregulated with no guarantee standing between parties. When confidence is collapsing, there is a flight to cash that contracts the degree of leverage that had multiplied the money supply.

What About The Derivatives

Let us start with the little known fact among the general population, that it may be true that "Derivatives" are financial instruments that have no actual tangible value of their own. Yet, Derivatives are the cornerstone of commerce, even Aristotle explained in Book I of his celebrated "Politics" describing such a derivative as a "financial device which involves a principle of universal application." The earliest derivatives were in fact - "Options" that are instruments with no actual value in and of itself. It is also true that the great "Tulip Bubble" of the 1600s in Holland involved actually trading in options on tulips instead of an exchange in the actual tulips. The tulip dealers bought options to assure that they would have inventory for future sales, which became known as "calls" while the producers (growers) seeking protection against falling prices would buy options with the right to sell their tulips at specific prices that were "puts." In both cases, they were transferring the "risk" to a third party as a scheme of insurance. The Tulip Bubble became the first public exposure to speculation post-Rome. It was the public buying and selling the options, not the dealers that caused the widespread leverage and economic contraction. Other bubbles followed, South Sea and the Mississippi Bubble in France based also on land.

Derivatives are in fact essential to commerce. They are what paved the way out of the dark ages and fueled exploration and world trade. Merchants would not have taken the risk to fund voyages as often when entire fleets would be destroyed by a storm at sea. The derivative "insurance" market was created transferring the risk of cross-Atlantic voyages that furthered capitalism and world trade.

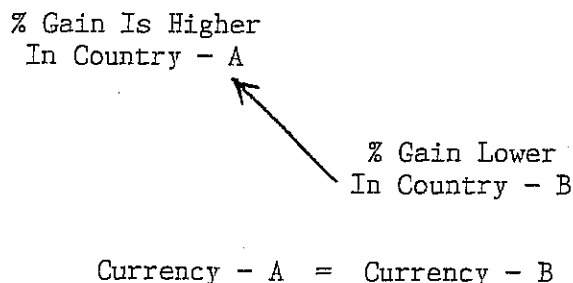
Even during the Civil War, we find both the North and South governments were using Derivatives to circulate currency and to issue bonds while the abandonment of the gold standard caused the New York Stock Exchange to trade a Derivative listed as "greenbacks" - paper currency traded upon the whims of the Fortunes of War relative and expressed in gold. The North issued paper currency that were a Derivative of a bond that displayed a payment schedule on the reverse showing what it would be worth in the future if you held it. The Confederate Government issued bonds in Europe that were Derivatives for (1) they created an option that the buyer could select where to be paid in Paris, London, Frankfurt or Amsterdam; (2) the currency could be British pounds or French francs, and (3) payment could be taken in cotton rather than money and the cotton would be at a fixed price of 6 pence when the prevailing rate in Europe was 24 pence. So these bonds were a complex Derivative that offered (1) hedge against foreign exchange risk in the currency, and (2) a hedge against inflation using the cotton. Numerous countries have subsequently issued debt denominated in foreign currency to eliminate foreign exchange risk.

The bottom line; Derivatives are not the cause of the death of capitalism any more than a gun kills a person. People kill people irrespective of the instrument and it is the people at AIG in London who issued CDS that were seen as insurance by banks around the world, but simply stated, there was no business to back up the operation. This was truly a "Ponzi Scheme" for it was printing money with no actual business in insurance (other than the name) to offset the risks. This is akin to a tulip grower selling calls against a crop he neither has, nor intends to even plant. The assumption that they would never have to pay on such CDS, was a self-serving exercise in self-delusion.

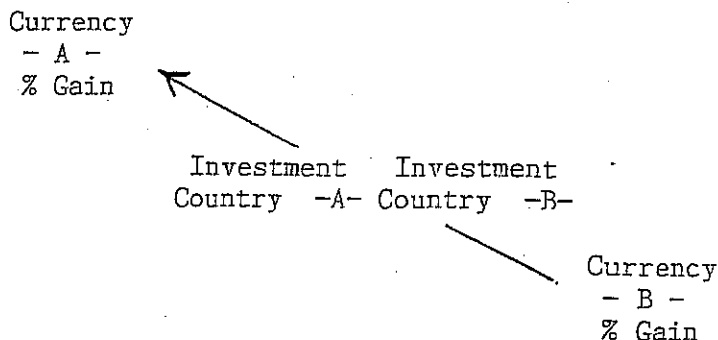
An economic implosion is not caused by Derivatives as a concept. The regulated futures and options exchanges function perfectly. It was the absence of regulation on interbank derivative markets that allowed CDSs to become the modern-day Tulip for there was no guarantee standing between and positions were not collateralized.

Understanding the Floating Exchange Rate System

FIXED EXCHANGE RATE SYSTEM



FLOATING EXCHANGE RATE SYSTEM



Within a fixed exchange rate system under which virtually all major economic theories were developed, Smith, Ricardo, Marx, and Keynes, capital will only flow from country B to Country A when it sees a comparative advantage, in Ricardo terms. The currency exchange is fixed, and therefore, we have a very linear world that on the international level appears as a seesaw. While there were still nonlinear issues working in a dynamic manner behind-the-scenes, the conceptual world was linear. Yet, moving to the floating exchange rate system, transferred the risk of maintaining the currency value from the state to the private sector. We can see that this greatly expanded the variables and now even if the expectations for capital gain do not even exist based upon some comparative advantage, the 40% swings in the currencies alone can cause a transverse change in capital flows. If there is a positive comparative advantage in addition for the underlying business with a 25% expected gain, a positive currency gain of 10% will increase the yield to 35%. Likewise, a 25% expected gain in the investment, may still attract capital if the decline in the currency is only a 5% expectation.

We must understand the value of the currency can alter all other economic considerations. By transferring the risk from the state to the people, capital was given yet another independent reason to move. This has manifested in mature markets that allow the international community to actually vote its confidence by buying or selling the currency.

Sharp percentage swings in the currency can also cause delayed inflation. For example, in 1985 when the British pound fell to US\$1.03, Americans were buying just about everything in London. Even the Concord tickets at 2,000 pounds that had been about \$5,000 in 1980, were suddenly cheaper than first class TWA tickets. Everyone started flying the Concord that they declared the flight a success, and raised the price to 4,000 pounds. But then the pound rallied back to almost US\$2.00 causing the price of the ticket to rise to over \$8,000. The same happened to cars and housing. That inflationary boom was currency driven. The same was true of the Japanese buying property in the US including Rockefeller Plaza. But the decline in the dollar by almost 40% between 1985-1987, led to massive liquidations of property and the 1987 stock market crash. Currency has become a major component in driving capital around the world. All the old theories no longer work because the system was changed.

The Nature of a Debt Crisis

Not all financial panics are a Debt Crisis. There are panics caused by the speculative bubble in a particular instrument, such as the tulips in the Netherlands (1634-1637). There are bubbles like we saw in the .COM boom. We saw similar dramatic exponential bubbles in Rail Road stocks (Transportations) in 1907. The Industrial Boom of 1929 led by the auto stocks. The 1989 rally in the Japanese Nikkei was also another Phase-Transition rally. We saw the gold and silver boom into 1980. All of these do not emerge because of a debt crisis, but are the natural exhaustion of a speculative bubble conforming to the Phase-Transition exponential move.

The traditional speculative bubble is created by a concentration of investment capital into a particular field. Such speculative bubbles have also materialized in off-exchange markets such as real estate. We saw an excessive speculation into real estate creating the S&L Crisis sparked by taxation that created an advantage to invest into commercial property. This led to a huge office boom that ended up with a dramatic over-supply.

However, there is the far more dangerous Debt Crisis where the confidence in the government is at stake. Unfortunately, American history has been largely written with a very linear view that fails to grasp the global perspective. Additionally, there is much confusion about how capital reacts within a fixed exchange rate and a floating exchange rate system. We tend to see the speculative bubbles more so during a Private Wave, rather than a Public Wave. Nevertheless, where the values of currency are fixed (by decree or gold standard), capital will travel internationally only when the prospect of greater gains appear on the horizon. This is what created by the famous South Sea Co Bubble (1711-1720), the expectations of fabulous wealth offshore. There was the Mississippi Bubble burst about the same time as the South Sea Bubble in England, that was operated from France and gave birth to term "millionaire". This irreparably harmed the Bourbon Dynasty that contributed no doubt to its demise just 72 years later in 1792. When it is the confidence in the government that is damaged, we are looking at a serious distinction from a Private Wave speculative bubble.

Because we are dealing this time with the broader real estate market that is the home residence rather than the commercial, and we are dealing with a wholesale bank crisis, we are on the brink of a major economic crisis from which serious political change is on the horizon. The Great Depression was a distinct breed of crisis that can be classified as a Debt Crisis as distinguished from the other panics. It is true that the Roaring '20s was a period of industrial boom built upon the innovation of the automobile akin to the .COM boom. However, what is not looked at closely was the glaring fact that all of Europe went into default. Herbert Hoover's memoirs is the best account well documented as to these events. What was not understood by America, was that capital fled Europe buying US bonds and notes driving interest rates lower only because it was seen as a flight to quality. When there is a Debt Crisis, capital will travel around the globe for security. This is also furthered by the floating exchange rate system where capital travels also due to expectations not of profit in a particular investment, but solely within the currency.

A Debt Crisis combined with a floating exchange rate system, will lead to the most volatile outcome perhaps we have seen even since the Tulipmania of the 1600s. What we are facing is the most dramatic combination possible. Floating exchange rates that act as a medium of international voting on the confidence of a nation, adding a second dimension as to why capital will flow even in a transverse wave contrary to logic in a linear mind. A Debt Crisis simply is distinguished from a speculative bubble that rarely produces long-term economic disruptions.

What Now?

We have reviewed the main economic theories that drive government in its thinking process. We have reviewed Adam Smith's (1723-1790) most critical central core of his finding in *The Wealth of Nations* (1776), was that everyone acts in accord with their own personal self-interests. As Smith wrote; "it is not from the benevolence of the butcher ... that we expect our diner, but from [his] regard to [his] own interest." Vol I, p26-27 (Oxford: Clarendon ed. 1976). What both Keynes and Marx advocated, was that somehow the state was even capable of managing the economy, Keynes through fiscal policy of deficit spending and the raising and lowering of taxation and interest rates to cause mankind to run in particular directions like the rat in a maze, and Marx by taking all toys away from the people and let the state control wealth. In this respect, Keynes and Marx show little difference. Their ideas that somehow the state would be more capable than the people is absurd. The concept of a planned economy has proven to be disastrous both in China and Russia. What everyone seems to ignore is that Smith uncovered the key to understanding the system dynamics. It is not only that those in the private sector will pursue their own personal self-interests as the politicians are now pointing to the "greed" of Wall Street, but those in the fortress of government also respond in their own self-interest. When Russia fell from Communism, it was suddenly revealed that behind closed doors were the luxuries of capitalism denied the people.

Both Marx and Keynes open Pandora's Box (in ancient Greek it was jar), and the evils that have swept the world have deprived millions of their freedom and their posterity. Bad economic theories have destroyed the lives of so many, when good theories have provided for liberty and progress that advances mankind. It is not in the self-interest of the state to listen to what I have to say, but the truth, nonetheless, still must be understood.

I have explained a dynamic world where the very nature of everything can be reduced to a cycle. A major Australia mining company was a client. Their CFO had lost a lot of money betting on a hedge in the Australian dollar that was wrong. The Board of Directors insisted that he meet with me. I flew in to see what I could do to help the corporation. The CFO was at first very hostile. No matter what I tried to explain about cyclical activity, he responded it might be just a coincidence. I then asked him what was his background? He suddenly was on the defensive. He then admitted that he was a Nuclear Physicist by training. I said great. Let us look at the market through the eyes of thermodynamics, which is based upon 2 main laws. (1) energy in a system cannot be created nor destroyed, but can be converted from one form to another (Phase-Transition), and (2) that a hot object will transfer heat to a colder object. Entropy based upon the Second Law is that the direction toward the maximum chaos or disorder will occur with spontaneous change in a closed system. If you shuffle a deck of cards, it is a higher probability that the cards will move to disorder rather than fall back to a organized pattern just randomly. Once I said let us look at the markets in terms of thermodynamics, his eyes opened and exclaimed; "My God. There has to be a cycle!" The more government tries to control the marketplace, the greater it will move to disorder creating huge spontaneous readjustments back to reality.

We are looking at the peak of this current business cycle that took place on February 27th, 2007 precisely. The reaction should have been to the downside into 2008, with a consolidation into early 2009, but another serious decline is still possible going into June 13th, 2011. Do not expect the real estate markets to

recover by much. Unless the mortgages are taken out of the banks and a general fund is created to allow private capital to participate, the real estate market may be contracting for some time to come.

There are a lot of people espousing the way to put Humpty Dumpty back together again. We can train a dog to learn tricks. But we have to train every individual dog. We can train a mouse to run a maze to find the cheese. Again, we have to train every mouse. The distinction between mankind and a hamster is we are supposed to be manifested with a mind capable of more than just a thought, memory, will and feeling. We are capable of perception and imagination, with the ability to formulate into the future because we are also self-aware - conscious of ourselves and current position. Despite this superiority, we are no better than a hamster. We live for the immediate gratification. Solve the problem in a sound-bite and with the quick-fix. This is what leads to the Paradox of Solution - where today's quick-fix becomes the very evil for which we now need another quick-fix on the next cycle. We may be capable of being self-aware, but we prefer to be the rat in the maze - keep it simple and stupid, and by the way, where is the cheese?

The Paradox of Solution

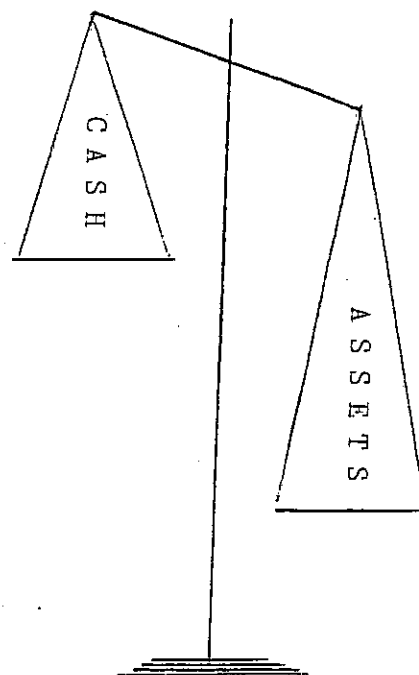
The solution to the Great Depression was to be deficit spending at a time when the individual was too afraid to spend and hide in the corner of the maze. Now we are facing a Debt Crisis where the confidence in the Public sector may yet collapse. We are dealing with a contagion that is spreading. It is the massive chronic deficits and the mismanagement of the public sector including the failure to fund the future entitlements combined with massive new debt created to solve current problems, that may demonstrate once and for all the true scope of the Paradox of Solution. The crisis we face is where will the funding come for the new debt, more than \$1 trillion! There are only three possible outcomes:

- (1) We sell the new debt, it is absorbed domestically and globally, causing the yield-curve to steepen as the long-term rates rise faster in response to the amount of new debt coming to the market, with any possible stimulation limited to the debt sold offshore.
- (2) The contagion spreads globally forcing interest rates to rise broadly limiting sales domestically, causing only a redistribution of cash extracting it from those who could invest and stimulate the economy while the electronic money supply contracts sharply.
- (3) Confidence swings back to the Private Sector (not banks) causing the new debt to take the form of monetization due to the inability to sell the new debt either domestically or globally.

The Keynesian model to support Government control and deficit spending may have been the institutionalization of the Roman political system of the office of a dictator. While Roman politics was based upon a Republic whereby the central power resided within a senate, there was the office of two elected Consuls. Nonetheless, where the two consuls performed perhaps the executive function, the system also respected that at times a democratic system does not work. Sometimes, a dictator was necessary because one man had to take the responsibility to act rather than have an endless course of debates. I noted in the Greatest Bull Market In History, that during the Great Depression, senators stood upon the floor of the U.S. Senate and stated that even a dictatorship was preferable to what we were going through. The most famous person to hold that office in Roman history, was Lucius Quinctius Cincinnatus (519-439BC) who handed the troops back along with the powers of the office and returned to his farm. The power was never given back by modern governments and the deficit spending became chronic addiction and now when we could use the idea of magnanimous intervention, we find that the Paradox of Solution has created the very problem that prevents a solution, requiring new thinking.

The Paradox of Value illustrates that the key to understanding what is honestly going on, like Einstein's Theory of Relativity, it depends upon the perspective of the observer. The Government immediately points to the "greed" of the private sector no matter what form of a government we are looking at, and the private sector now looks back at the Government. This dialectic relationship in Hegelian terminology is far too simplistic for it leads only to the process of change in which a concept or its rationalization passes over into and is preserved if not fulfilled within its opposite.

We must understand that this is a dynamic system that is forever connected. It may appear to be a plain one-dimensional relationship, but it is far deeper than meets the eye. While these Private and Public aspects sit on opposite side of a scale, the forces that cause one-side to rise in proportion to the decline in its opposite are far more complex and are multi-dimensional. It is true that we are dealing with a predisposition toward residing briefly within time, within one state of order or the other.



The problem we face is the lack of objectivity to comprehend that these two states are in fact connected and co-exist at all times. We are now looking at the collapse in asset prices, which is the rise in the purchasing power of the underlying currency. This is taking place because of a collapse in the electronic money supply created through the private sector banks. As lending stops, the real world money supply contracts. Because assets are valued in terms of currency dependent upon the supply, they rise relative to a rise in the quantity (leverage) and contract in response to a collapse in quantity (leverage).

Keynes was correct in his theory that if Government increased its spending to allow for a deficit in times of contraction, then a supply of cash would be then increased causing the assets to rise again. The money supply is created by the banks and is not limited in definition to purely the paper currency in circulation. Even in the time of Julius Caesar, where there was no paper currency, the leverage was created by the lending and a contraction in the available leverage causes the value of the money itself to rise in purchasing power terms. The actual amount of paper currency in circulation is only about \$729.4 billion (Source Financial Management Service, US Treasury, as of 6/30/06). If we take this as a percentage of GDP, which stood at about \$13.2 trillion in 2006, we can see that the physical money supply is only 5% of the economy. Even if we take \$13.2 trillion compared to the national debt in 2006 federally \$8.5 trillion, we can still see \$4.7 trillion that exists without bonds or currency, and this is just the surface.

Keynes was correct insofar as identifying the possibility that a deficit would increase the money supply to offset the contraction. The problem we face with cronic deficits using borrowing, we are merely redistributing wealth solving nothing and more likely than not, we are contracting the money supply further soaking up even available cash that the private sector would put back to use if they have the plain old fashion "guts" or "courage" to invest, I define as Private Confidence. We are talking about the expectation of profit in the private sector must exceed the risk perceived in the marketplace itself. Just as I helped international companies deal with where to locate in light of "country risk" that was essentially the stability of the Rule of Law, we are dealing with the same considerations domestically and to create a major boom, requires the concentration of capital.

Comprehending the Problem

We must come to understand that this is not the "greed" on Wall Street. We can reduce this to a sound-bite, regurgitate these slogans like mindless pawns in a political play and delight in our own applause when we lock-up hundreds of people from Wall Street and pretend that was the solution. Of course there was insane judgment at AIG that spread through the markets based upon profits. But this has only been the catalyst. For just as we saw them write the derivatives with no backing or offset at AIG, we have committed the same crime publicly by spending and handing out promises for benefits also with no funding. The Keynesian solution was to turn to the Government to take up the slack. But there is no slack and we are becoming trapped within our own nightmare.

The Difference Between Monetization & Borrowing

It has been presumed that if we borrow money rather than print it, somehow this will be less inflationary and in theory is somehow more responsible. A close examination of the problem reveals its fallacy. The national debt is exploding dramatically due to the interest alone. If we look at what has taken place just since 1980, we can see that the national debt has exploded from about \$1 trillion to over \$10 trillion, and now we are looking at a potential 10% increase without interest in a single year. The national debt stood at \$2.125 bn in 1986 that rose to \$8.507 bn in 2006 amounting to a 400% increase. The interest alone during this same period was about \$6.142 bn. The increase in the national debt was about \$6.382 bn. We can see that had we simply printed the money, rather than borrow, we would have actually saved more than \$6 trillion. When the Government borrows, it competes with the private sector suppressing economic growth. That capital would have been privately invested, but-for the availability of federal debt. As a nation, we are no different than a young couple who bought whatever they needed using credit cards to set up house, and find that they can no longer afford life because of the interest payments.

1980 =	\$1 trillion
1990 =	\$3 trillion
2000 =	\$5.7 trillion
2007 =	\$10.2 trillion

Because Government Borrowing Competes with the Private Sector - There is an Equal & Opposite Force of Suppressing Economic Growth In Proportion to Stimulation

The inherent problem with applying Keynesian theory, is the difference in what is observed just as in Einstein's theory of relativity where the observer on the train traveling at near the speed of light see a like beam traveling normal from a flash light on the ceiling to a mirror on the floor. But the stationary observer (Government) see the light moving sideways as a pulse. Here, we cannot see the effect of the stationary observer because of the inherent bias. Keynes argued Government could "stimulate" the economy when the private sector was then contracting. But that meant we needed to increase the money supply, not borrow the funds taking from one group and giving them to another. This is moving money from your left to your right pocket, which of course does not change how much money you actually have in the system (pockets).

The Keynesian model assumed that Government would stimulate when needed. Yet what took place, the Government displaced the economy insofar as it became the single 800 pound gorilla to whom everyone looks. However, if it lacks self-awareness and is too delighted in its own applause, it cannot and will not see that part of the problem is itself. If the government borrows \$1 trillion, where does it come from? If it soaks up excess cash from the private sector, it is only redistributing the capital - not stimulating the economy as a whole. Whatever the Government soaks up in capital, creates an equal and opposite effect of suppressing economic growth.

The First Law of thermodynamics applies. There is a fixed amount of energy within the economy. We can neither create it nor destroy it. All we can do is to redistribute the energy causing it to change form. The reason why capital concentrates is because that is the natural product of any system. There are people who enjoy working - the work-aholic. There are those who prefer to be just provided for, and do as little as possible. There are those who resent the wealth acquired by the work-aholic, and demand that such wealth be redistributed to make it "fair" because one person should not have more than another irrespective of how much work he does. Communism failed because they suppresses innovation that is the key to creating new ages of prosperity, i.e. Schumpeter. Distribution of wealth on a equal basis undermines the individual incentives leading to periods like the dark ages where there is no cooperation. Even the internet develops in clusters of web-sites according to its use and thus popularity, not on theories of "fairness."

It is one thing to require social programs to ensure the children are taught, there is a fire department when in time of need, and no one will starve. Some of these issues are the very purpose of banning together in society, to create the cooperative that benefits the whole. However, we can neither take this idea to the extreme (communism) nor totally abandon social obligations (anarchy). There must be a balance between the two - the political ideals of Jefferson & Madison stand in stark contrast to the goals of the Republicans & Democrats that both see the Government as the answer, as did Marx that led to greater Government control.

If the Government is now the 800 pound gorilla, it cannot stimulate itself. We can assume that the Government can make everything better like our mothers who kiss our knee when we fell as a child. But the Government is not your mother. We must honestly face the fact that borrowing does not reduce inflation long-term, and it will only accelerate the problem. It is time to monetize part of the debt at the very least, respect what is really happening, and stop deluding ourselves that if we borrow a \$100 on a credit card, we somehow are not really spending and the interest is not important enough to pay attention. If we are going to just borrow all the time and rely upon foreign governments to soak up this mess, how can we then have any effective international influence? Like a government attorney looking for a big paying job, under no circumstances will he indict a firm he is hoping to work for in the future. We have lost our way economically and politically. We could have printed \$6 trillion less since 1986 had we just monetized allowing the money supply to grow in at least the proportion to the population. In 1986, the national debt on a per capita basis stood at \$8,774 each whereas in 2006 it was \$28,504 (source Bureau of Public Debt). The population has increased from about 226.5 million to 298.4 million in 2006. We have added about 72 million making it a increase in total population about 32% for this same period. This means that had the money supply simply been monetized in proportion to the population growth, the national debt would have been about \$11,500 per capita or \$3.5 trillion instead of \$10.2 trillion. If we subtract the interest payments of \$6 trillion, we still still would have saved \$700 billion ($10.2 - 6 = 4.2$). Borrowing the money seems to be more inflationary than just printing the money in proportion to population growth.



It is Time To Re-Examine What We Are Doing

It is time to start looking at what in God's name we are doing. The floating exchange rate system emerged without planning. This altered everything in the field of economics. All the theories are from times long since past. We really need to re-examine what is going on if we are to survive for posterity. Failure to do so, will only invite war that is a byproduct of economic depression. The alarm clock just went off. Good Morning America! Wake up and smell the coffee!

The Paradox of Value

We must understand another problem I refer to as the Paradox of Value. When a market crashes, we measure that crash in terms of the currency. We can have an isolated bubble where one segment within the economy rises dramatically without truly spreading to other areas. One cycle might find it to be commodities, the next stocks, and another the real estate. As profits are earned from those in that particular segment, they may influence other markets by spreading the profits. Yet this may create a tag-along effect that appears to be more broadly based, it is distinguishable insofar as the individual segment is rising in a Phase-Transition with exponential gains that is not reflected on an even basis in all other such segments. Where the Phase-Transition is taking place on a broad base perspective, we are entering into the zone of the Currency Crisis that is joined at the hip often with the Debt Crisis or at least a significant decline in Public Confidence. When we see a broadly based exponential rise in asset values in all segments for the most part (with isolated exceptions), we will be confronted by the Paradox of Value.

The Paradox of Value is the natural way that tangible assets rise in value as expressed in the local currency that is in reality a depreciation in the purchasing power of the currency. However, when the pendulum swings back the opposite way, we now see the rise in value of the currency relative to the tangible assets, commonly called a "crash" by pundits. What is taking place, is the contraction in leverage (loans) reduces the money supply and therein creating the paradox. Suddenly, we are faced with the same amount of currency buying twice the amount of tangible assets.

	= \$500,000	<u>Paradox of Value</u>
	= \$500,000	In a debt crisis, the central purchasing power of the currency rises in proportion to the asset value in the private sector.
		Inflation sees a rise in all assets against the currency, and in a deflation the currency rises against all assets

In the 1990s, a similar debt crisis hit Denmark. The Government took over the banks, and what was critical, they stepped in to revalue the assets. Once the state made those determinations, it relieved the burden from the private sector and that allowed the crisis to be worked out. Similarly, we must understand the Julius Caesar workout. He appears to be the only head of state to understand the nature of the real problem.

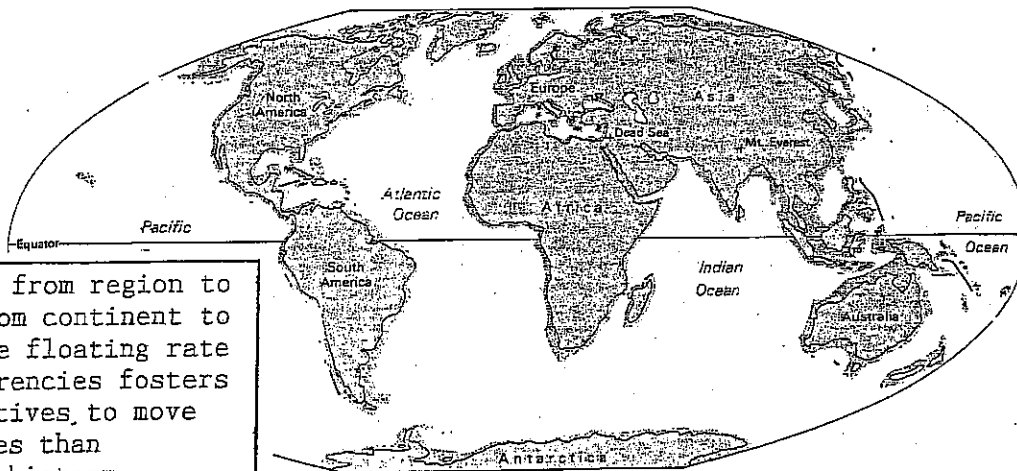
In the midst of a debt crisis, the value of money rises on a purchasing power basis. If the house that was purchased was once \$500,000, but is now worth only half that amount, the same \$500,000 now buys two homes. Forcing the homeowner to now pay the \$500,000 becomes a profit in purchasing power terms that is akin to a windfall. Julius Caesar understood this Paradox of Value between the tangible assets and the value of the currency caused by the swing in confidence between the Public and Private sectors. Caesar established an evaluation board, which revalued each property to the equivalent value at the time the loan was made. He realized that when assets decline, it is the purchasing power of the currency that rises, and in such circumstances, this becomes a windfall to the lender. Likewise, one may borrow against property as a hedge against its decline taking in the currency now before its value declines. Caesar's plan was to take all interest payments and principal payments and apply them to the loan to settle the debt crisis.

Capital Concentration

One of the critical factors I discovered in economic forecasting I defined as "Capital Flow Analysis" that applies both domestically as well as globally. Even the CIA seemed to acknowledge I invented this form of forecasting. It was based on the realization in part upon Marxism. I noticed in my personal trip behind the Berlin Wall in the late 1970s, was that what Marx had created was akin to the old movie the Stepford Wives, where everyone seemed stripped of personal innovation. If capital were evenly disbursed in equal proportions to every person, you would create a new dark age. What makes one sector or nation rise is the concentration of capital.

Take the .COM Bubble. Capital concentrated within that particular sector causing it to rise exponentially compared to all other sectors within the US share markets. When capital concentrates in such a manner, then one sector can rise exponentially. There is only a defined amount of cash within a system even when leveraged, for it is not unlimited. In order for a boom in one sector to take place, capital needs to concentrate in that sector. What we see is the "flavor of the month" that where it becomes popular to invest in one particular sector. This is what creates the real "boom" that often ends in the Phase Transition like gold rising to \$400 between 1976 and December 1979, yet jumping to \$875 in the final month.

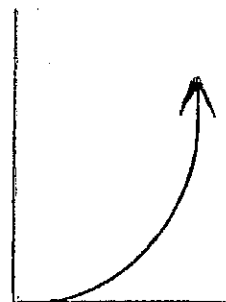
Global Capital Flows



There is also a finite quantity of capital within the global economy. As I explained earlier, in a floating exchange rate system, capital will be attracted on a dynamic basis. If the expectation is that the stock market will rise in the U.S. by 30%, then as long as the currency is stable, expected to rise, or at least not decline by more than 10%, foreign capital will be attracted if this net return would be greater than elsewhere. I gave a lecture in Geneva in the early 1980s that was very diverse. One could see the capital flows in the room. It became obvious that the same advice to one person denominated in Swiss francs had to be different from that given to a Canadian. It was Adam Smith alive and well. What became obvious, was capital will concentrate even globally. After the 1987 Crash, the Japanese pulled back foreign investment selling Rockefeller Plaza because the dollar dropped by almost 40%. They started to invest domestically. The Nikkei Index rose sharply into December 1989. When I flew to Tokyo to meet with clients there, I ran into brokers who had been in Geneva servicing OPEC in the early 1980s. The Bubble in Tokyo was caused by the capital concentration. When it burst, it moved to Southeast Asia, then it moved back to Europe for the birth of the Euro. The flow of capital creates the excessive growth in "real" money supply, freeing up dead assets domestically and increasing the exponential Phase-Transition.

The Hyper-Inflation Outcome

An economy can blow itself out like a candle. It can simply die a natural death through the forces of public and private confidence swings that produce the more common deflationary outcome, or we can see the candle blown out by the external winds of international forces that will produce the hyper-inflation scenario, albeit far less than the stories of Germany. The fate of all economies swing in a constant state of confidence between two opposite poles - the private and public confidence.



To see the Dow Jones collapse to 3,500, what precisely would cause such a major decline? Does the actual value decline in terms of purchasing power? Or is it just that the purchasing power of the currency rises against all tangible assets? In order for the Deflationary Spiral to unfold, as was the case in the crash of 1929, the currency must be of a steady quantity and perceived to be a preservation of capital. During the 1930s, all of Europe was defaulting on its debt. Capital sought to then preserve itself. It was not a question of profit or even yield. During such a time, capital is satisfied with virtually zero return. Raising and lowering interest rates has no real effect. The dollar rose to record highs going into 1932 not to obtain interest rate differentials, for U.S. rates fell to about 1%, but to flee the plain uncertainty in Europe.

The Dow Jones Industrial Index could swing to record highs if it managed to get back above the 13,500 general area on a monthly closing basis. The economic real growth prospects look dismal in any event going into 2011. Could the Dow still rise to new highs in the middle of sheer chaos? The answer is yes! This would not be a happy outcome to say the least despite the numbers, for we are not per se looking at real value in purchasing power terms. For the Dow to hit 35,000, gold would be well above 5,000, oil perhaps a few 100 a barrel.

We must struggle to understand that a Hyper-Inflation outcome involves the sheer collapse in public confidence. How does this happen? The new fiscal year began on October 1st, 2008. We know that last year the amount of new debt coming to the market was about \$400 billion. This implies we can expect probably at least \$1 trillion. We can expect to sell the bonds making a standard presumption. However, to whom is critical. If the sale were purely to the domestic market, this would become a zero-sum game from a money-supply perspective. Someone with cash, buys the bonds, the cash is recirculated where it is needed. If we sell the bonds to China, then new cash enters the domestic economy from overseas increasing money supply that stimulates in Keynesian concepts that is more inflationary than a contracting redistribution.

Now, we can see in our current monetary system structure, if the contagion spreads around the globe infecting all economies, we can slip into a new Great Depression with nations failing to understand what is going on once again. If debt cannot be sold in the domestic market, rates will rise based upon a huge increase in supply. If the confidence in the Public Sector collapses, then dollars would be printed and we can see the mechanism that would lead to a Private Sector wave of Hyper-Inflation that is the collapse in the value of the currency in purchasing power terms. This becomes the Phase-Transition outcome that physics may call subject to Power Laws. To survive, we must respect that the leverage in the banks is collapsing. That is a money-supply that is imploding when such electronic money is created by the private sector. We must now comprehend the new dynamic structure and interconnectivity of the world economy to even approach the correct solution. We are painted into a corner facing also some \$50 trillion coming in unfunded programs for the Baby-Boomers. We must monetize in combination with borrowing in a delicate balance. If we borrow everything, we will extract cash needed to stimulate the economy to cover losses by the Bankers. This will place the nation at risk of an economic deflationary implosion.

Unravelling the Financial Contraction

We have to understand what is really going on and how did we get here. To make it painfully obvious, how can this happen when we have the Federal Reserve, Securities & Exchange Commission, and the Commodity Futures Trading Commission all claiming the power to regulate? In truth, the only regulation enforced is against the small firms, never the big houses who hire the Government attorneys strangely enough. We have to question whether or not a system that hires young attorneys, allows them to decide who to prosecute exclusively, and then run to a big paying private sector job as soon as they make a name for themselves is not just contrary to the purpose of regulation? Will someone harshly regulate a firm with whom they intend to take one of those "big" paying jobs later? Not likely. Government Attorneys who prosecute the laws are rarely career people, lacking any real policy or objectivity in the enforcement of laws.

There is excessive regulation of small business, and virtually no regulation of the big businesses. The CFTC will abuse its power to further careers against the small firms, but under no conditions has it brought a major enforcement action against any big houses. The futures and options markets in which the public can trade are overregulated, while the existence of interbank derivative markets are not regulated at all and there is no exchange standing between parties to ensure that there is collateral for the transactions. Had there simply been uniform regulation requiring an exchange, there would be no major contraction in leverage right now and we would have real world transparency. This strongly suggests that we need to get rid of the SEC and CFTC and merge them into the Federal Reserve charging it with the sole regulation of all financial markets and banking under one coordinated roof. We cannot not afford the incompetency of overlapping agencies wasting money that obviously does not provide any major protection for the economy.

This is the same age old problem resurfacing all the time, just with a different twist with respect to the product, and who is the targeted market. What we are now looking at is yet another form of the Orange County collapse. Chairman of Temple University was a friend of mine - Richard Fox. Before the Orange County debacle, Merrill Lynch approached Temple offering a product for their trust fund promising higher yields. Dick told them to run it by me first, and they flew in from Chicago. The scheme basically was to leverage say \$1 million into \$10 buying like 30 year bonds and selling a like amount of 10 year, reflecting the spread back to the base investment multiplying the yield. I pointed out if interest rates rose, they would be in trouble. They recalculated the deal and argued it would be a break-even. I declined to recommend it, and they told Temple I was in the business too long and did not understand the "new" way to make money. A few months later, Orange County blew up and I believe Merrill Lynch was being sued for \$2 billion. So much for the "new" derivative way to make money. It is always the same scheme with new objects.

Gretchen Morgenson of the New York Times wrote an article on the current AIG crisis that appeared on September 28th, 2008 at the front page. Gretchen understood that this time the "medium" they selected was not corporations or small governments. They selected mom & pop mortgages. They were put into "pools of loans sliced into tranches and sold to investors based upon credit quality of the underlying securities." Id./page 28. Gretchen explains that the AIG London unit sold in reality insurance through its banking arm that was a very aggressive trading unit on its own. Since there was no regulation of interbank derivatives of this nature, there was no such collateral requirement as exist in insurance. That was the problem!

As Gretchen Morgenson explained, it was J.P. Morgan that approached AIG London trading unit with a creative idea that AIG should write insurance on

packages of debt known worldwide today as "collateralized debt obligations" or "CDO" for short. The London operation created uncollateralized insurance for institutions holding the CDOs. Their revenue jumped from \$737 million in 1999 to \$3.26 billion in 2005 according to Morgenson. These insurance products became known as "credit default swaps" or "CDS" in the marketplace. Since it was the London unit of AIG rather than the insurance company, that was not subject to the same regulations that require collateral to write insurance. This allowed the CDS market to be naked, indistinguishable from the Tulip Bubble.

The CDS market expanded sharply and even European banks began to get involved as insurance for portfolios. This entire mess created a false sense of confidence and allowed risk concerns to take a back-seat. The mortgage market was further expanded because it became presumed that one could insure against default and of course there was Fannie Mae & Freddie Mac with implied AAA ratings. Bankers became careless, assuming that debt could be insured so why really bother about the quality? The AIG London Unit may be the source of the contagion, but it was the absence of any regulation of interbank derivatives that is the problem.

Obviously, going forward, we need one entity, not multiple, the same way they created the Homeland Security Agency post-911 for they found that numerous agencies did not coordinate and had information that others did not know about. Consequently, for a start, we need to fold the SEC and CFTC into the Federal Reserve with one roof regulating the financial and banking industry together. End the duplication that is painfully self-evident, worthless! Likewise, the Department of Justice must also be curtailed where the decision to indict must come from a central body that should be the Federal Reserve. We don't need more prosecutions of firms that send unemployment higher just to further the individual careers of attorneys. The decision to indict or not must be transparent so the public knows why some firms are charged and others are not. We need a consistent Rule of Law.

Attacking the Shorts

The turmoil that led to the 1934 turning point and Roosevelt's confiscation was again a frontal attack upon the financial markets. This time, the Senate also launched investigations that Herbert Hoover apologized for in his Memoirs. There are those who reject looking at history claiming that was then - today is different. That is just stupid. For the common reaction in every financial crisis is to attack the "short" players. Short-selling was outlawed briefly after the Panic of 1907. During the 1930s, everyone of size was subpoenaed before the Senate and interrogated as to were they "short" as if that was proof of being a traitor.

The stock market fell by about 90% into the 1932 low. This decline was so massive because of the interrogations of the Senate. Who in their right mind would take a short position knowing they would be publicly questioned? The famous culprit is always the short-seller. But what Government and academics with no real world experience fail to get, is that when a market is crashing, only the short player has the courage to buy during a decline to take a profit. Short-covering provides the appearance of buying for the reason of actual bullishness. When the short-cover rally comes, even government cheers, but like a fool, they delight in their own applause. Shorts provide the balance and can also create rallies when there is none.

The witch-hunts will begin. Every time there is a decline the Government looks for the shorts. They hate them. To be short becomes treason in their mind, which of course cannot understand how the markets work and usually become more of a bull in a china shop.

LAW Number 1: NEVER OUTLAW SHORT SELLING

Herbert Hoover apologized for the investigations. The treatment of those in the financial markets that included brokers and investors alike, was deplorable. You quickly find out that the Constitution means very little. Hoover wrote; "Sometimes when a government becomes enraged, it burns down the barn to get the rat."

Abuse of Investigations

The investigations that took place during the 1930s were devastating to the economy. Herbert Hoover recognized what took place after the fact. But it did not change the outcome. The claims that both the Democrats and Republicans are going to target the "greed" on Wall Street, we must respect that the likely outcome of this will be to send the United States back into the primitive dark ages. We have already lost the stature of being the Financial Capital of The world. That now belongs to London because of the abuse of prosecution generally.

I apologize for having to cite my own case, but the lawyers have been shocked and perhaps because of my worldwide recognition, it became like a warning beacon for capital to flee. My lawyers at Proskauer Rose, LLP informed me that a European bank inquired about opening in New York. They were obligated to inform them of my case that has changed the entire foundation of corporate law. Once they explained that now a terrorist has more rights than a corporate officer, then decided to kill the idea of opening in New York. At common law, corporations could not be criminally prosecuted in England in 1789, but their officers could be. The Second Circuit court of appeals in New York, held that since a corporate had no rights, then neither did I. This ruling by Chief Judge John Walker shocked the world. It was to justify the imprisoning of myself for more than 7 years without any right to a trial or any right to an appeal. He held you can just be thrown into a cell where you can die simply because you had the audacity to surrender all personal right to work corporately. The most important factor in creating national wealth is the Rule of Law. Judge Walker would rather expand personal powers of judges than defend what makes capital invest.

One of the big problems in financial cases is the ability to indict without any accountability or transparency. In a major case in New Hampshire involving Enterasys Networks, Inc. the former Governor was the main shareholder. The head US Attorney was his friend, assisted him even in his political campaign. When the company was exposed for accounting irregularities like ENRON and WORLDCOM, they hired Robert Gagalis just 10 weeks before the news hit, making him the new CFO. Who got indicted? Gagalis who was sentenced to 11 years, a little more than 1 year for every week he worked. The US Attorney had to step down, but not his office, because of the political ties. The fraud becomes Gagalis was given \$2 million in stock options to take the job, but they were not vested. So the theory becomes, he commits the cover-up to eventually make the \$2 million in the future.

In 2000, the United States had 50% of all world IPOs (new stock offerings). If you were not listed on the New York Stock markets, you were a nobody. Today, the capital has been driven offshore to stay as far away from these abusive prosecutions. The US share of the IPO market has collapsed from 50% in 2000 to less than 5%. It has transformed the United States into a wasteland. With the new witch-hunts about to begin, it is unlikely that anyone will find an underwriter in the US and we may be back to the 1700s where the real market is London once more.

The power to investigate for political purposes has been very destructive. In 1912, Congress began an investigation of J.P. Morgan to try to pin some political reason to destroy him. They were not successful. They ignored not just the fact that Morgan helped the nation in 1893, 1896 and 1907, but that his efforts to fund new projects created International Harvester, AT&T, and General Electric. Congress tried very hard to destroy Morgan. In those days, conspiracy laws were both abused as they are today. Article III of the Constitution defines what is treason because the King

would claim that violating any law was treason. Today, they have accomplished the same tyranny using conspiracy by threatening one person with life imprisonment unless he agrees to say whatever the government needs to convict others. Conspiracy is only an "agreement" to do something that never actually takes place. Conspiracy was invented in English law by the King to get his enemies. There may have been an American Revolution, but in all honesty, we are still but "subjects" of the new crown. The old maxim "The king is dead. Long live the king" is still alive and well in the United States.

Perhaps you may recall Charles Keating. He was held up as the poster-boy for the S&L Crisis. He was found guilty on a theory that he conspired to sell bonds he knew he intended to default on 7 years later. Who plans to go bankrupt 7 years in advance? The theories used are disconnected from reality, but they use the amount of money to portray you as some common thief, even when not one \$1 was ever diverted to some personal account as in my case. In fact, there was not even a default and where the private notes were simple unsecured contract borrowings of Japanese yen, they constructively claimed that all trading in the United States was for the benefit of a noteholder even when the notes paid only a fixed rate of interest. The judges are worthless, for the courts are stacked with pro-government judges that will never rule against the prosecutor - they are on the same team. No matter much I tried to fight, it mattered not. Basically, the theory became if you borrow money from a bank, you are somehow constructively managing money for the bank, even when the bank has no legal title to any investments be there a profit or loss.

The treatment of Howard Hughes by Congress was also dispicable. Whenever there is a private interest that can control the political process as Pan Am did to try to destroy Hughes, the dignity of the government suffers. But likewise, whenever the Government creates the mess, they hunt for those in the private sector to sacrifice to the mob. Under the abuse of Conspiracy, that the non common-law nations never adopted as a crime in Europe, both Hughes and Morgan would have been convicted in today's climate. The McCarthy witch-hunts are another example. What you suddenly see in times of turmoil, particularly when the 37.33 Yearly Cycle hits, the Constitution is just suspended informally by Congress and the courts. The Constitution means little during political witch-hunts. They will be rounding-up countless people this time for this event.

The Abandonment of the Rule of Law Leads to the Destruction of National Wealth

In international investment, the common term one hears is "country risk" that translates into the lack of a consistent Rule of Law. At the conference in 1997 with former Prime Minister of Great Britain, Lady Margaret Thatcher, a member of the audience asked the question, "Which country would you invest in. Russia or China?" Lady Thatcher stated she would not invest a dime in either, because they did not respect the Rule of Law. Indeed, the Rule of Law is the cornerstone of capitalism that cannot exist as long as judges claim the ultimate power of "discretion" to withhold the judgment of law. In the New Testament at Luke 18 is the parable of the corrupt judge and the widow. The Widow keeps petitioning for her rights. The judge believes he has so much power, he has the discretion to withhold the judgment of law. Jesus Christ himself refers to this as a corrupt judge. In Magna Carta we find the same complaint that the King agrees to appoint only those who know the law and are willing to uphold it, Chapter 45. The age old source of all corruption, is when the courts are stacked to alter the Rule of Law to prefer one religion, class, or group against all others. This was like the Supreme Court decision of Dred Scott (1795-1858) whose case was decided by a pro-Government court ruling that blacks were merely property. That was the Supreme Court of the United States, (Scott v Sanford (1857)). Then there was the Japanese inturnment Korematsu v US (1948) that allowed citizens to be arrested merely because of their ancestry.

Unfortunately, the Rule of Law in the United States is far from any binding rule and the federal courts have been stacked with "conservative" judges who are no more "conservative" than FDR. The courts have once again been stacked with judges that will only rule in favor of the Government. The criminal conviction rate of the infamous Star Chamber was about 96%, The Spanish Inquisition was about 97%. These are the most notorious tyrannical institutions in history. We have beat all of them. At the very least, the conviction rate in the United States in federal courts is now 98.5-99%. We have even surpassed Adolf Hitler. This idea that the government must always win has made the predictions of Thomas Jefferson come true.

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

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

The independency of the courts is gone. Even the Supreme Court has abdicated its constitutional duty and by Rule 10, it has held that it is its own discretion "if" it decides to listen. A federal judge who politically decides your case, rules only for the Government, the appellate court will rubber stamp whatever the government wants (just look at the ratio of convictions overturn - less than 1%), and then you have no right to be heard by the Supreme Court. So much for Due Process of Law and Equal Protection. The pure statistics do not lie. Even in violent crimes, DNA evidence has overturned more than 1,000 convictions for murder and rape. One must ask, how are so many innocent people being convicted?

The abandonment of the Rule of Law in favor of political agendas, has caused capital flight just as it had fled from places like Cuba and Iran. The Rule of Law is the cornerstone of a nation's wealth. This was also noted by William Easterly of the Institute for International Economics and Ross Levine of University of Minnesota. Back in 2002, they conducted a detailed study of 72 rich and poor nations. The question they asked: "What makes one country richer than another?" One would assume the wealth of a nation is determined by its natural resources, its infrastructure, and perhaps its productive capacity with a skilled labor force. What Easterly and Levine found was that the most significant factor that determines the wealth of a nation was its social technology that was built upon the Rule of Law that secured property rights, a well-organized banking system, economic transparency, lack of corruption, and other social and institutional securities. While I would not dispute their findings, my personal specialty of international corporate advisory work, the Rule of Law was the number one factor. If there was no consistent Rule of Law, all other considerations became secondary. If you could not trust the government, it mattered not how tempting the offer might be, when you were forced to count your fingers after shaking hands, who needs the risk.

Recently, there has been an outcry to regulate speculation in oil. On September 12th, 2008, the Wall Street Journal reported that even Walter Lukken, the Acting Chairman of the Commodity Futures Trading Commission ("CFTC"), warned about more regulation may "force business overseas." Id/page C3. The backlash to the entire ENRON, WorldCom, Tyco prosecutions has been the unnecessary regulation of corporate management that has created such draconian penalties, the United States lost its financial stature of being the Financial Capital of the World.

The Desire To Publicly Punish
May Irreparably Damage Our Own Economy

There was no doubt that the Secretary of the Treasury's attempt to slip in an immunity clause into the bail-out for the bankers was disgraceful. Nevertheless, we also cannot afford a wholesale prosecution to satisfy some political agenda nor to quench the thirst for blood in some inherent primitive need to get even. There are those who honestly committed crimes, but there are a whole lot more who will be found guilty just because where they worked.

Recently, the New York Times ran an article in its Science Times section on October 7th, 2008 entitled: "Wired for Justice," by Benedict Carey. It was pointed out that there may just be a hard-wire response in people that needs to punish. It was also rightly explained; "Some experts believe that Japan's disastrous delay in bailing out its banks in the early 1990s was caused in part by a collective urge to punish corrupt bankers, and they fear a similar outcome today." Id/Front page. The New York Times explains that this may just be instinctive. American courts are not of a forgiving nature, and will do everything in their power to inflict punishment on those who appear before them to extremes. This may be cyclical. For the Cruel & Unusual Punishment prohibition in the Eighth Amendment was directed at this very problem of arrogant judges. The famous trial of Titus Oats may be the source for the novel Count of Monte Cristo. Titus Oats was tried and found guilty of perjury, a misdemeanor at the time. Lord Chief Justice Jeffreys of the King's Bench held that since it was only a misdemeanor and not a felony that was subject to death, the judges could do whatever they wanted, as long as they did not order his death. Jeffreys ordered that Oats would walk the length of London for 2 days while being whipped. He would then be placed in the pillory (stocks) in three locations in London where citizens could throw various items at him. He then sentenced him to life imprisonment, but on the anniversary of his crime, each year he had to repeat the same punishment. Judges have historically viewed the punishments they order to be a form of personal vengeance during those days. It appears the cycle has made its full circle once again. Under Biblical law, property crimes were punished only by restitution. That was changed in 1987 in the United States, where in a dissent, Justice Scalia noted that historically the maximum jail time for such offenses was 45 days, Mistretta v US, 488 US 361 (1989). The eye-for-an-eye standard in the Bible is a statutory maximum, prohibiting the infliction of any punishment greater than the harm caused. The life imprisonment CEOs face today, not only offends the laws of God, but are destroying the economy.

By pledging to prosecute those "greedy" people on Wall Street, the Government has exonerated itself, identified the guilty, tried them for all future juries, and set in motion, what could be the fate of capitalism itself. History stands as witness to the sad fact that with every bubble and financial crisis, the government, no matter who that may be, increases its power and blames the targeted class. For Hitler it was the "greedy" Jews who controlled the banks and finance along with commerce. For Nero it was the Christians who he blamed for burning down Rome setting in motion almost 300 years of spectacle sport - feeding the Christians to the lions. For Marx, it was the "greed" of the "bourgeoisie" - the wealthy select group of the Middle Class. It matters not who is in power. It matters not if it is a monarchy, dictatorship, or a democracy, all governments throughout history respond identically. They point to a specific target of people, attach the blame that exonerates themselves, and then let the games begin.

There is a very serious threat that in the desire to exonerate the government for not doing the job it should have done, we will utterly destroy the financial industry sending the American economy made into a primordial state that we become a banana republic with nuclear weapons.

I am not advocating to cover-up "real" crime. We just must be very careful to ensure that the criminal laws are not once again used for political objectives. This has been the curse of mankind for centuries. If we do not understand how the criminal laws work and how they are put into practice, then the people will not even know if the right people are being prosecuted, or are we prosecuting a batch of innocent people to save those who are really guilty, but have friends in very high places.

Criminal Laws in Anglo-American History Are Political Tools

The criminal law has also been used as a revenue raising device. Even in Magna Carta, the king was then prohibited from fining people - called amercements. He contrived all sorts of offenses to raise revenue. Indeed, the revenue thirst of the King created the entire criminal law. Since Biblical Times, if someone murdered a family member, he was prosecuted by the family, not the state. In Athens, the only crime prosecuted by the state was a crime against the state or the Gods, as Socrates was charged, see Plato's *The Laws*. There was Trial by Battle where the victor was seen as being vindicated by the hand of God. There was trial by ordeal where the accused was burned, thrown into water, and again the idea was a innocent would be saved by God. But after Magna Carta and the prohibition against amercements, the King of England inserted himself into private disputes claiming that any such private event "disturbed his peace" and thus he was now entitled to compensation.² Never was the prosecution for the benefit of society, it was to further the self-interests of the King. It was Marx that created the social compact ideas that were fueled by his demonization of the rich for the benefit of the state.

We must understand, that with the turning of this cycle downward and the Great Convergence we now face, the state will always turn against its own people, and that has been just part of the process. Even the classic work of Edward Gibbon in his celebrated *The Decline and Fall of the Roman Empire* observed that one of the primary reasons that capital contracts and shys away from investing is when the Rule of Law collapses. When the state becomes desperate for funds, its own self-interest always prevails over the rights of the individual no matter what the form of government since he who rules, also controls the Rule of Law. Edward Gibbon noted that corruption had infiltrated the entire criminal law process and that indeed a "distinction of every kind soon became criminal." *Id.*/Chp IV. Under the reign of Commodus, the son of Marcus Aurelius and immediately following the 224 Year high in the Cycle of Political Change (the same point at where we are today), he too targeted the rich and the loss of economic power he faced, he reversed and blamed the private individuals making the mere "possession of wealth" the just cause for becoming the target and "[s]uspicion was equivalent to proof; trial to condemnation." *ibid.* The rights, privileges, and immunities disappeared and the sole thrust of the rule of law became the quest for absolute victory. The prosecutors, so to speak, were the "most worthless of mankind [who] are not afraid to condemn in others the same disorder which they allow in themselves; and can readily discover some nice difference of age, character, or station to justify the partial distinction." *Id.*/Chp VI. The Rule of Law in Rome simply became "corrupted by the multiplicity of laws" that were "interpreted ... according to the dictates of private interest" and that the promotion of government lawyers "was pregnant with mischief and disgrace." *Id.*/Chp XVII.

- 2.) Alexander, G.J. "Trial by Champion" (1984) *Santa Clara Law Review* 34(3): 545-64
Landsman, S/ (1983). "A brief survey of the adversary system" *Ohio State Law Jrnl* 44(3): 713-739
Weef, M. & Nigel S. (1974) "The Adversary Nature of the Am Legal System from a Historical Perspective" *New York Law Forum*, 20: 123-164
see also: *Encyclopaedia Britannica*, Macropedia 1982,
Law of Evidence, Legal 7:1-6 and Legal Profession 10: 779-784

White Collar Crimes Are The Most Abused Prosecutions In Federal Courts

For decades, lawyers have been complaining that the fraud statutes are too vague and allow themselves to be abused for political purposes. No matter how many times the legal arguments have been made that the mail and wire fraud statutes are too vague and unconstitutional for they do not provide notice to a citizen that he is even committing a crime, the courts always rule in the favor of the Government. What you should understand, is that mail or wire (telephone) fraud is per each time you use that instrument. So if there is a fraud of \$1 million that only involved one phone call, that is 20 years. If another used the phone 5 times for the same \$1 million, he now faces 100 years. In the financial industry, there will be no-one who the government could not demand life in prison, and there is no limit of the amount of money nor is there a minimum, for the courts also claim it is not the amount of money that is an element of the crime, but the use of the mail or the telephone that constitutes the crime.

Therefore, fraud is the perfect political crime that can be applied to anybody who uses the mails, FedEx (private carriers), telephones, or emails. So just about anything can be used to create the crime. This broad sweeping application is not understood until it is too late. Yet, fraud is suppose to be some sort of a scheme that involves a deliberate misrepresentation with the objective of "embezzlement" where the money at stake is to be for "one's own use," according to the Supreme Court, Carpenter v US, 484 US 19, 27 (1987). There is suppose to be a "manipulation or deception" used to create the fraud, Dirks v SEC, 463 US 646, 654 (1983), and the object of the fraud must be the "property" in the hands of the specific victim, Cleveland v US, 531 US 12 (2000). The "misrepresentation" is also suppose to directly cause the loss, known as "loss causation." Dura Pharmaceuticals v Broudo, 544 US - (2005). A major problem is Rule 10 of the Supreme Court denies any right to be heard claiming it is the prerogative of the Court to listen. There can be no Equal Protection as long as courts claim the prerogative of discretion. Unless there is an absolute right to be heard, there is no Rule of Law. This is the entire problem that is behind undermining the economy, for as John Stuart Mills wrote in On Liberty, we are not yet free of the "stain of legal persecution." Unfortunately, you and I do not have the "discretion" to decide whether we want to work yet the employer has to pay regardless. Only judges can claim they have the "discretion" to honor any rights. And if you think you can recuse a judge; Forget it! I doubt that even 1% of recusal motions are ever granted and most lawyers fear challenging the judge because the judges will prejudice their firms and other clients. There is no Rule of Law, for you cannot compel any court to follow the law and they can throw you in jail on contempt for decades without any trial at all.

Candidates are running commercials at all levels, vowing now to get those evil "greedy" people on Wall Street that have destroyed your life. The prosecutions will be political to exonerate the Government itself. Let us not pretend. What we have seen in all the big white collar trials, is the "life style" prosecution. For example, in the Tyco case, you heard about a party for his wife with ice sculptures and how much he spent on a shower curtain. They show how you lived, how much money you made, and argue to the jury, you must be guilty for "greed" that is somehow a unwritten crime. If they argued a black youth must be guilty because he "hung" on a specific corner in a high crime area, there would be outrage to argue someone must be guilty because of where and how he lived. But in white collar cases, forget it. You are guilty because you made money irrespective of the facts and don't pretend that the prosecutors do not push this button. If you think you personally have to do something, forget it. It is presumed you have "constructive" control over everybody and knew precisely what any employee under you would have done. The whole purpose of "conspiracy" is that someone else may do the crime, you did nothing, but they argue you agreed and when they cannot even prove an agreement, they roll out the good old "conscious avoidance"

instruction to the jury. They then look at your life-style, and presume that you must have known to make all that money and therefore you "consciously avoided" any actual knowledge of the crime. So kiss the wife and kids good-by. The land of great opportunity is far more Marxist than you ever imagined.

We can expect hundreds of people to be prosecuted for it will be in direct proportion to the size of the bailout and the pain and suffering on main street. It matters not if there was a crime per se, for it boils down to someone has to simply just go to jail to satisfy the mob. Make no mistake about it. Even the criminal defense lawyers are not stupid. They are there for ceremonial purposes only. If you think that you have the protection of a grand jury that was to prevent the government from indicting just anybody for political purposes, think again. The Supreme Court held that there is "no supervisory judicial authority" over what takes place in the grand jury room, US v Williams, 504 US 36 (1992). It was held that only Congress may create ethical rules, and they did not bother to do so. Three well known judges of the Seventh Circuit Court of Appeals in Chicago stated bluntly:

"Realistically, federal grand juries today provide little protection for criminal suspects whom a US Attorney wishes to indict. Nevertheless, that is not a realism to which judges are permitted to yield."

US v Ross, 412 F3d 771, 774 (7th Cir 2005)(Judges Easterbrook, Posner & Evan)

The entire purpose of the grand jury to prevent political prosecutions has been removed by the courts. The government can say anything they like. There is no rule and you have no right to even appear. They can lie to the grand jury, and nobody will ever know because all records are sealed and the public has no right to know!

The Absence of Disinterest

In Prosecutions Lends itself to Corruption

Government officials are targeting CEOs and trying to curb how much they make, but they do nothing to correct the internal problems within government. The U.S. is precisely opposite of China, where young lawyers become prosecutors looking for the big case to get their name in the papers and land them one of those "big" paying jobs. Back in 1987, all the SEC lawyers that prosecuted Milken, I believe, quit the SEC and took jobs paying \$1 million or more. Instead of experienced lawyers taking up the government at the end of their careers, who would not be looking for that big case to land a big bucks job, we have the reverse model prone to corruption. This also lends the criminal law to be nothing more than a political tool at the federal level. Murder and rape cases, traditional violent crimes, are state cases not federal unless connected to organized crime or big drug rings. These young lawyers will not prosecute the "big" houses because they are the future employers or clients of the big law firms. Either way, you cannot prosecute those who you are looking to later hire you as a lawyer. This is why you will never see criminal cases of big houses.

The prosecution always avoid the big New York players. This is not a coincidence. The Framers of the Constitution had a totally different understanding of the basic requirement to be a "disinterested" person. As Gordon S. Wood points out:

"[D]isinterested [i]s being 'superior to regard to private advantage not influenced by private profit,' and that was what the founders meant by the term. We today have lost most of this earlier meaning. Even educated people now use disinterested as a synonym for uninterested, meaning 'indifferent or unconcerned.' It is almost as if we cannot quite imagine someone who is capable of rising above a pecuniary interest and being unselfish or impartial where an interest might be present."

Even Ben Franklin was not truly respected until he retired from private enterprise to become a "disinterested" man of dignity. The loose manner in which we allow those in Government to operate is astonishing. If government attorneys can be hired by those who provide the lucrative jobs, they cannot be "disinterested" within the meaning that founded this nation. This allows the big firms who now need bailouts, to engage in risky business with no fear of prosecution or even regulation that will ever interfere with their business operation. In fact, those same sources of jobs, can also be used to create investigations and prosecutions of competitors. The sad result, is the complete collapse of the integrity of the financial markets for there is no truly "disinterested" regulation.

Even Charles Dickens has written about how corrupt the legal system had become back in 1853. Dickens wrote in Chapter I, "In Chancery" of his celebrated Bleake House, "Suffer any wrong that can be done you, rather than come here!" Indeed, the current state of American federal courts has once again reached the lowest point completing the revolution of the wheel of political fortune. Perhaps this is in line with what we should expect with the 224 Year Cyclical high in the Cycle of Political Change. Those who are in the financial industry, kiss the wife and kids good-bye, for you have little chance. As Herbert Hoover wrote, "Sometimes when a government is enraged, it burns down the barn to get the rat."

The Manipulation Of Markets The Dirty Little (Big) Secret

There was a lot of talk about regulating speculation because of oil rising to unprecedented levels. Let us make this very clear. There has been a core group of firms that manipulate markets to obtain that "guaranteed" trade without risk. It has been limited to the currencies and commodities in general, for these are markets that are regulated by the generally incompetent CFTC. What the lawyers have told me, if you can't get a job at the Justice Department. You can't get a job at the SEC. Then what you do is go to the CFTC. It is true, their attorneys are not the sharpest nail in the box nor are they the brightest bulb in a light shop.

Many people knew that I would routinely warn about which market was going to be manipulated next. I had a network of brokers who were not part of the "club" who would also help monitor what was going on. I refrained from ever saying "who" was doing the manipulation, that was not my job the way I saw it, particularly when the Justice Department, CFTC and SEC were never interested in prosecuting manipulation cases. Lawyers told me the government attorneys said they were difficult cases to prove. Of course when the manipulators were the big houses who were the ones doing the hiring of government attorneys, I suppose that had nothing to do with it. Still, I hope it has not gone unnoticed that oil has crashed by about 50% curiously enough when a lot of firms have blown-up (AIG in particular), yet there does not seem to be any corresponding change in the fundamentals. There is still the war, and the global consumption has not declined by 50% in such a short time. So was oil also being manipulated? Chances are, you will never know because those who were part of the "club" were protected by government attorneys who looked the other way.

The silver manipulation may be responsible for my entire case. As clients are well aware, I came out in September 1997 warning that they were going to manipulate silver from \$4 to \$7 going into January. It seems, that this may have started the ball rolling for the "club" was known as the "Billionsre's Club" made up of a lot of the "big" houses and particular individuals. I was "invited" to join the "club" by Republic National Bank itself. I was told flat out, "stop" fighting everyone and join with them for once. I declined stating bluntly, I did not believe in manipulating markets for I believed in my model would prevail in any event. It was not the first time I was "invited" to join in. Nevertheless, I reported that they intended to take

silver up to \$7 stating - "They're back!" It appears that this time they got mad. Instead of ignoring me and sitting back comfortably knowing they had the forces that could do anything safely in their pocket, they decided to try to manipulate the press against me. What they failed to appreciate, was I was primarily a serious corporate and institutional advisor. I did not rely upon the "retail" newsletter trade so getting the press to try to discredit me, did not impress me very much.

A friend of mine became a board member of AIG in London, he was the former economic advisor to Prime Minister Margaret Thatcher. I received a call from him, to see if I would be available in my office in Princeton, New Jersey. I said sure. He then arrived the next morning clearly under pressure from the head trader for the London AIG office. I was asked not to talk publicly about manipulating markets. I told him I never revealed who was doing what, just that certain manipulations would take place. I found it strange that AIG was becoming concerned about my public comments to hop on a plane and fly to the United States. Nevertheless, I apparently made a mistake in under-estimating the concern I appeared to be creating. I had no intention to go running to the CFTC or SEC, as they were incapable of ever going after such schemes. So I paid the warning no mind. Still, it was AIG London that was a major player in this nefarious profession.

One of the "brokers" was Phillips Brothers in Connecticut. I believe they had an analyst on the payroll so to speak who had developed contacts in the press. I believe the stupid decision was made to try to get the press after me to stop the forecasts. A journalist from the Wall Street Journal called, accusing me of being short silver and trying to talk the market down. He was very hostile. We argued and I bluntly told him if I was short why would I be saying it would rise from the mid \$4 range to \$7? The conversation turned almost into a screaming match. He insisted I tell him who was behind the manipulation. I told him it didn't matter because he would never print the name. We yelled back and forth and finally I just said fine, it was Warren Buffett. He laughed saying Buffett did not trade commodities. I just commented, that's how much you know, and slammed the phone down.

They created a flurry of press about me and silver. I believe even one of the London newspapers was induced to running a story calling me the "largest" silver trader in the world. This was a joke to me, for anyone that knew me, would never take such stories serious - particularly about silver. This became a very big mistake on their part, because once they induced the press to start running stories about me an market manipulations, they were lifting the rock under which they had been hiding for a very long-time. The CFTC could very easily just look and see who was the largest silver trader. They knew that was certainly not me. This attention from the press created the very pressure on Government they did not want. The CFTC called me, because of the press stories they instigated, and very bluntly asked where was the manipulation seeing I had no positions. I told them it was in London out of their jurisdiction, and they said they could get to the bottom of that anyway. I never expected the events that followed, that was clearly because they tried to get the press after me to stop talking about manipulations.

To my shock, my telephone rang. It was a broker who was not part of the "club" to let me know the Bank of England called a meeting in the morning of all silver brokers. I was truly shocked. Obviously the press didn't want to believe me, but it seems the Government's did listen. This was only a couple of hours after the call from the CFTC. Then came the real shockwave. Later that same day, Warren Buffett came out to head-off the Bank of England and publicly admitted he bought \$1 billion worth of silver, he denied manipulating the market, and said it would be a long-term investment. The Wall Street Journal called back the next day. The Journalist was in total shock. He asked me how did I know it was Buffett? I told him it was my job to know, and I hung up the phone, preferring not to get involved.

I was not trying to save the world. I was not trying to expose individuals. It was my job to tell the truth about the markets. That is what the clients expected from me. They knew if I said something, it was verified. The reason why I did not expect the CFTC to defend the markets and was shocked that they even called the Bank of England, was because this was not Buffett's first commodity speculation into silver. According to my sources, in 1993 there was another attempt to get involved with the silver market. I believe Buffett was going through Phillips Brothers. The CFTC this time noticed the trading and went to "PhiBro" as they were known. They wanted the name of who they were dealing for. PhiBro refused to give up Buffett's name. The CFTC then just ordered they get out of the positions never demanding the name. Silver crashed and a lot of people got hurt. The CFTC declined to investigate the "big" names.

So forgive me if I lack the confidence in the regulators actually regulating. There is no "disinterest" among those who are suppose to guard the markets. As long as government attorneys are looking for a big paying job, there is "interest" at foot.

John Maynard Keynes wrote; "When the capital development of a country becomes the byproduct of the activities of a casino, the job is likely to be ill done." The General Theory of Employment, Interest & Money, NY Harcourt, Brace, 1936, p159. Between the AIG CDS without collateral backing, the concept of manipulating the markets to create guaranteed wins, it is ironic that the "big" houses were trying to create riskless trades, but in the process, destroyed it all. As Hegel saw, often what develops is precisely the opposite. It is the total lack of regulation of risk that has led to this mess. It has been the attempt by the "big" houses to control the trade to avoid losses, that has led to sheer chaos.

The degree of attempts to control the markets knows no bounds. I was also solicited to join in with the "Billionaire's Club" regarding Russia. Edmond Safra, the major shareholder of Republic National Bank tried to get me to join in with them on Russia. I warned them my model was forecasting that Russian debt would collapse. Safra rented the entire National Gallery in Washington, DC, for the IMF honorary dinner. Every politician was there of any note as were former Federal Reserve chairman. I was invited to show me that I was wrong. They had inside tracks to the IMF and assured me that the loans to Russia would continue. I was asked to join in with Safra and others to invest in Russia getting huge returns in high interest rates when the IMF was going to back Russia. Safra set up Hermitage Capital, and tried to get me to join. I declined warning my model forecast a decline. They believed in manipulating markets to create the guaranteed investment without risk. The model was correct - Safra and the "boys" were flatly wrong, and blamed me.

I know there were rumors and stories that the woman who was running for the Mayor of St Petersburg who was executed being shot in the head was a pawn of a major western financier who was supposed to be myself. I believe this was another story trying to discredit me some how. I never met her, and the only loose connection was that her son worked in our London office by coincidence. Let me also set the record straight, we had more than 200 employees worldwide, and I did not do the hiring and firing. We had partners in every country who ran their own divisions but we worked around the world together gathering the best private intelligence network that perhaps ever existed. Governments shared intimate knowledge that they wanted out into the marketplace, but could not politically make such statements. We became the United Nations in finance and clearly there were some who resented that intensely.

Edmond Safra I believe was deeply involved in a plot to takeover Russia. This may have been the crowning audacity of market manipulations. I believe he was in partners with two Russians Berisnofsky and Gazinsky, who were very powerful and even controlled the private media in Russia. I believe the real story provided to

me by the son of a well connected Russian diplomat, and still others, amazingly was that the Bank of New York prosecution for a claim \$7 billion money laundering scam was in reality \$7 billion stolen from the IMF (International Monetary Fund) loans, at the direction of Yeltsin himself. It was Republic National Bank, whom I believe, ran to the Feds pointing out the transaction. I believe Republic even testified in Congress.

As you will recall, Yeltsin had vowed he would run for election again in 2000. The Bank of New York deal came out in August 1999, about 30 days before my case that was also instigated by Republic National Bank running to the Feds. As the story goes, Yeltsin was being blackmailed, that he would be protected if he stepped down and appointed one of the two Russians as the next leader. Yeltsin, it was told to me, turned instead to Putin once he realized he was set-up. Putin accepted the appointment and protected Yeltsin and the whole IMF scandal. Both Barisnofsky and Gazinsky fled Russia while all their assets were confiscated. My case began on September 13th, 1999. Yeltsin announced he was stepping down in November, and by December 3rd, 1999, Edmand Safra was killed in Monaco. Within 1 month, my lawyers were retroactively disgorged of all fees, and I was thrown into prison on "civil contempt" that the statute 28 USC §1826 stated I had an absolute right to an immediate appeal within 30 days. President Bush's cousin, Chief Judge John M. Walker, Jr., grabbed my appeal, held I had no such right to ever appeal, and that allowed the government to arbitrarily imprison me for more than 7 years on "contempt" of court denied, lawyers, denied any right to appeal, and denied any trial by jury or any limitation upon the duration of imprisonment. They did not want to go to trial and showed the world that if the US Government wants to lock you up, well guess what - you really have no rights at all.

The murder of Safra remains a mystery. Some sources have intimated that he was murdered for Yeltsin as a favor on orders of Putin. To make more of a paradox of this enigma, they charged the male nurse with setting the fire in Monaco and also spent at least 6 years in prison. Then, the Supreme Court where you do have a right to be heard in France, reversed the conviction stating that the judge and the prosecutor conspired together to deprive him of a fair trial. He was then ordered released, and sent back to the United States. Never would an American court ever say that about itself. Even the Supreme Court of Israel vacated a conviction of the alleged "Ivan the Terrible" when it came out that American prosecutors, who knew he was not the man, extradicted him anyway and withheld evidence that showed he was not the person sought. The Sixth Circuit, only after the Supreme Court of Israel vacated the conviction, was embarrassed enough to say that US Government Attorneys committed fraud upon the court, Demjanjuk v Petrovsky, 10 F3rd 228 (6th Cir 1993). The question that jumps from the pages, is why are American courts so pro-Government to the point they will cover-up actions and allow knowingly innocent people to be even executed?

Safra began his career in exchanging coins in the middle east. The main silver coin that was used in trade was the Maria Theresa baring the portrait of of a woman that was not considered acceptable to the Arabs. Safra told me he use to buy them at a discount from the Arabs and that is how he started his empire. He was very much a gold bug, and would call New York and speak directly to his metals dealers. This is why, in my opinion, he was obsessed with Russia to get his hands on the metals that existed there.

The "club" is always looking for the riskless trade. They are not real investment managers. They have to rig the game to ensure they make money and never lose. In this respect, yes, it is the "greed" that drives them because

they always have to win. They do not analyze the markets, they have to control them. They have targeted so many areas, you would be shocked. They even did the rhodium market that is purely cash. Perhaps the most outrageous, was the platinum market. There, they bribed Russian officials who recalled all their platinum to take an "inventory." Of course, they were already long. They then drove platinum up dramatically. They sold at the top, reversed, and then took short positions telling the Russian it was time the "inventory" was over. The price collapsed. They took advantage not just of small speculators, but they targeted the auto industry. Ford Motors filed a lawsuit over that scam.

In the summer of 1998, I delivered a lecture in London. The Financial Times attended. They reported the forecast I delivered that Russia would collapse in about 30 days. Well it did. Even Long-Term Capital Management was involved. I believe that viewed that they had the IMF in their pocket, and that my forecasts were contrary to their goals. Their collapse and loss they blamed on me. I believe that this is what started the effort to stop the Princeton forecasts at all costs. I believe that they were telling the CFTC behind the scenes that I was "manipulating" the world economy because I just had too much influence and too many clients. I am sure, they did not bother to tell the Government that they were on the other-side trying to seek real manipulation with bribes and efforts to manipulate markets that had nothing to do with analysis.

Another incident where I clashed with the "forces to be" came also in March 1999. I warned at a seminar in Tokyo that "they" were targeting the yen and were looking for that "guaranteed" trade. Every March, the Japanese sold their offshore investments and returned the cash for March 31st accounting. They would then immediately sell the yen and go back to the short-term investments. The "club" knew this, and were in search of a quick few billion profit. They would manipulate the yen over this roll-over to create a wide spread between the buy of the yen and the resale of the yen. So I warned the clients that the yen was the "new" target and to this time lock in the sale at the same time they had to buy the yen to come home. This would eliminate the potential loss. They listened, and the "club" lost. No doubt they got really mad one more time. The way I saw it, I told them to trade like men. But they wanted that "riskless" trade assuming that "risk" was for fools. I find it ironic that this time they blew themselves up so bad, and they can't blame me.

Due Process of Law Died in 1987

Again, I apologize for citing my own case. But since I am writing this like Kondratieff from a cell serving a 12 year sentence for a pretended offense that by law cannot justify more than 5 years when guilty, my ability to quote authoritatively to sources other than my own is limited. Those who know me, realize I hate to cite something as fact unless I have proven it to myself.

My case has stunned the financial community for the government can fool the general majority all of the time, but they cannot fool the professionals. That may be why Stalin purged the population of the intellectuals who can see through the lies. We issued private unsecured notes borrowing yen at (1) fixed rates or (2) swapping a note for a pre-existing portfolio of Japanese stocks that we down 30-50% with an unlimited amount of time to pay off the note. Therefore, we were not managing money any more than borrowing from a bank makes you a fund manager or buying damaged portfolio with a face value converts that into a managed account any more than taking out a mortgage transforms you into a caretaker for the bank. The SEC alleged this was a Ponzi scheme and there was commingling of accounts while the CFTC alleged I was really running a commodity pool that not registered. It came out at the bail hearing that there was no default on any note. Any finally, when the government realized they got the whole theory wrong, they moved to get rid of all the lawyers SEC v PEI, 84 FSupp2d 443 (SDNY 2000) and then created the contempt because we were insisting on a speedy trial by March of 2000 to save the companies.

You think that as an American we are honest and the best. Think again. When the government does not want you to know the truth, you will not know it. And as for the politicians, well they are more like those sitting above the clouds who pontificate on what is right, but the forces below could care less what they do or say. On April 24th, 2000, Judge Owen illegally closed the court, ordered the record delayed to hide the event, and threw the Associated Press out, which they reported on April 27th, 2000 questioning whether I could get a fair trial in New York. If you think what takes place in court is public record because it is felony of 5 years to change the transcripts, guess what! The Southern District of New York federal court created its own rule to negate Congress allowing judges to edit the record changing the events and the words you speak. That is a crime 18 USC §2071(a), but the Justice Department will never prosecute a judge for helping them. The Second Circuit had to admit this was a practice and ruled: "Courts do not have the power to alter transcripts in camera [privately] and to conceal the alterations from the parties." US v Zichetello, 208 F3d 72, 97-98 (2d Cir 2000), but then claimed they lacked the power to order their own judges to obey the law. So much for the Rule of Law. We have become a banana republic where the government is never wrong, but with nuclear weapons. The bureaucracy allows us to believe it is a democracy, but they operate according to their own desires. I tried to challenge this practice. I got Judge Owen to admit even publicly he was altering the record, but the Court of Appeals refused to do anything!

JUDGE RICHARD OWEN: "I don't remember ever making any change to a transcript of any substance whatever. I may have stuck in a comma, I may have stuck in a dash. But I don't remember ever changing anything of substance." (99-Civ-9667 SDNY: Tr; 9/23/03, p45, L7-11)

Frank Quattrone of First Boston had the same judge. The press was well aware of shenanigans going on. I even met with Mr. Sorkin of the New York Times who was covering Quattrone's trials. They knew of the editing by Judge Owen in my case, and were paying very close attention to what Judge Owen was doing to Quattrone. The New York Times reported what Judge Owen had ruled, and the Second Circuit in overturning Quattrone's conviction where it really had no choice, blasted the press and in their written opinion criticized the press stating they misreported events. I spoke to Sorkin after that report, and he confirmed to me that what he reported was correct and he too believed that perhaps the transcripts were changed by Judge Owen. This is the sad state of affairs in federal courts. If you are not guilty, they can alter what was said later to sure up a conviction when necessary. And the Second Circuit claims somehow it has no power to enforce the law when it is one of their own violating it. So much for the Rule of Law.

A lot of people are awaiting for me to speak out. Trust me, that day has come. But what I am more concerned about is the complete collapse in the Rule of Law. We cannot maintain the confidence in society, in government, and in the future as long as the courts are nothing more than a den of thieves. We cannot fix the economy unless the Rule of Law is established. This is a complaint that been around since Biblical times when Christ delivered the parable of the widow and the corrupt judge who thinks his personal power includes the "discretion" to withhold the rule of law. Thomas Jefferson saw this as the biggest threat to the inevitable destruction of the United States. We are running out of time. If the game is not fair, the game cannot survive what we are going through. Perhaps it is time for a Judicial change like Jefferson did in 1800. Or at least the Judiciary Committees of the House and the Senate have to stop appointing pro-government judges and start policing the mess they have approved. Nobody is in charge and capital will continue to flee as long as the game is rigged. You cannot invest in a nation where your rights depend upon the mood and personality of the judge you end-up with that day. Being a judge was not to be one step shy of a monarchy, but that is what it has become. They can interpret the law anyway they like, and then rule that no one else can disagree. We need real stability, dignity, and honesty. The Rule of Law cannot be measured as they use to say, by the length of the judge's foot.

So What Happened to the Model?

Former employees have told some key parts of the story that has appeared on the Internet. Yes it is true that I also taught the computer to communicate by rational verbal exchange. In other words, I could talk to the computer, ask key questions, and it would respond verbally. It was a shocker to those who first saw this type of interface. I worked on that part of the design in the early '80s and constructed a desktop version for my children that probably cost me as much as a Porsche back then. My daughter would communicate with the computer typing in questions and the computer would then engage in a conversation with her on all sorts of topics, learning who she was, what she liked, and it became a friend. When she came home from school one day, I had the computer in pieces. She got upset and thought he was dead. I assured her, he was fine.

By 1985, I had constructed a verbal interface. My daughter contributed not knowing that she had been my test pilot to give the computer a personality and to teach it human behavior. As my children grew older, they outgrew the need for a computer friend and I moved on to bigger and more challenging projects. What you may see in the recent movie Ironman with the active verbal interface of the computer, is what I created out of necessity.

I realized that the greatest difficulty in forecasting is the prejudice of the analyst. One cannot forecast what he does not believe is possible. Kondratieff was correct for his time. But the economy evolved and transformed from a commodity world dominated by the prejudices created by the Physiocrats into the Industrial Revolution. Just as Rome matured, its people wanted greater pleasures and the more labor intensive jobs fell to the provinces. Augustus (27BC-14AD) had even passed family laws forbidding men to remain unmarried. As wealth accumulates, labor wants more and more until the jobs leave. These are natural trends where both the labor and the consumer seek their self-interests. One demands the highest wage, and the other demands the lowest cost. It is not the mere greedy corporations and the evil employers as Marx targeted. This is a historical balance of the economy.

Money supply is typically defined as a product of velocity - how much is changing hands. This can be increased dramatically through lending and derivatives. This also creates an opposing force that must be understood. In truth, there are so many variables that need to be tracked, your head explodes. The model had to reflect my unbiased thinking process. Correlate everything, understand time, the Phase-Transition, and the dynamics of collective behavior. Allowing the computer to test all possibilities, allowed it to see war, changes in politics (1989), and above all to comprehend time. This opened the door to managing the future. It cannot be used to alter the trend turning highs into lows, but it can mitigate the declines by the comprehension of when and where to apply the pressure as Keynes believed.

I needed to create a system that would mirror my own mind. Something that I could teach how to think and analyze the data. Once that was done like teaching your child how to walk and talk, the end result would be astonishing. The first glimpse of this potential was a forecast the model made regarding the British economy. It projected that Britain would essentially invert and depart a correlation with that of Europe itself. I was shocked by the forecast. I at that time could only inquire by typing in a question - why? The computer spit out a correlation to crude oil that was so obvious, I could not believe how stupid I had been not to see it myself. With the discovery of the North Sea Oil, Britain began to evolve as an economy. I remember doing a TV show at the time with a good friend of mine, Walter Bressert, a true leader in cyclical theory. I delivered that forecast in or about 1983, and watched the pound drop to about \$1.03 by 1985.

I taught the computer how to think and how to analyze. Since I took the training wheels off allowing it to check soybeans against the Hang Sang Index, it would be able to study correlations that were not limited to my personal observations. The verbal interface made it far easier to communicate. But it was the structural design that was the key.

Yes it is true that I was invited to China and was offered the exclusive forecasting contract, which I agreed. China did not insist upon having the source code. They wanted to work together. The CIA saw only the military aspects and wanted me to construct a separate system for them in Washington. I declined, because I was far too busy, offering instead to run any study they might like. They told me flatly, they had to own it. Some staff have implied that Princeton Economics was destroyed because of my refusal to work with the CIA. Perhaps. But I believe it was coming from another source. I can confirm, that the system was laced with a virus. If it was ever removed from the office, it would know and self-destruct. That I believe took place, for it appears the Government seized the computer, took it to a lab at the World Trade Center, ironically where it was destroyed in the attack. The Receiver and his questionable attorney Tancred Schiavoni, forced the closure of the Princeton Economic Institute. Martin Weiss of Florida, a publisher of stock analysis, offered to rent the Institute to keep the forecasts going. They would not allow that and sent him a email stating I had to turnover the source code to keep the company going. I decided that the courts were just corrupt and I was in this battle to the death. I decided even if it cost me my life, I would not regenerate the source code for Mr. Schiavoni and Alan Cohen whom I believed were beyond all morals whatsoever. To sure up their position, they asked Judge P. Kevin Castel for absolute immunity for any of their actions against myself, my family, employees or even the alleged victims. Even the SEC objected that this would create a precedent that would allow them to embezzel funds without any sanctions civilly or criminally. To even ask for absolute immunity retroactively for whatever they have done, it a sign in my opinion that there are some really dark secrets still lurking in the wings. Yet, the Southern District of New York is just off the reservation when it comes to your constitutional rights. I believe they haul you into New York because there is just no possible way to obtain a fair trial with the practice of throwing the press out, criticizing the press to intimidate them as Judge Castel did on April 27th, 2007; and the practice of allowing judges to even edit the very words spoken in court.

I believe that case against me was instigated by the "club" to eliminate the forecasting for on Oct 3rd, 2000, the CFTC & SEC called a hearing to close the Institute. An employee, James Smith, showed up with a written request from the Dep't of Energy requesting we create a model because our forecast oil would rise from \$10 in 1999 to test \$100 by 2007. Judge Owen would not allow Smith to testify and denied the Institute any right to hire a lawyer. The "club" this time went with the forecast, but manipulated it to increase the amplitude up to nearly \$150. Just as they lost on the manipulation of Russia and the IMF causing Long-Term Capital Management collapse, they blew themselves up again. A monthly closing back below \$62 signals a changed trend

The Government with its Receiver Alan Cohen and his lawyer Tancred Schiavoni, were determined to seize all evidence I gathered on the "club" and the manipulations. I documented everything and could prove whatever allegation I made in writing. I had given some tapes to my lawyers for safekeeping. They attacked my lawyers demanding the tapes claiming they might lead to assets a plain lie. On February 7th, 2000, I stood up in open court and objected:

"I did a number of pieces and monitored a significant effort by a number of investment and fund managers who attempt to organize together in manipulating markets. I wrote extensively about several on that, and I made tapes to back up myself in support of that"

I continued to object against their illegal seizure stating plainly that they were made in a journalistic manner under the First Amendment. That of course, just meant nothing. There is obviously no free-press but in America when it counts.

"These are tapes that are, again, I do not see where they are particularly relevant to this particular case, your Honor. They have significant implications for a number of well known players and investment banks on the street that probably do reveal criminal behavior, but that does not necessarily involve this case. They were things I wrote about. It is well documented that I was exposing the silver manipulations that were -- went by a number of firms including Republic Bank. The CFTC even contacted me personally for information in that investigation and as well as that led to the Bank of England getting involved into the investigation."

Ibid/ pg 4-5 (2/7/00)

The Receiver Alan Cohen had the audacity to argue that there was no privilege. Judge Owen refused to allow me to speak, as did Judge Castel later on. Judge Owen stated: "Please, no. I am very troubled by your standing up here and saying things which are purportedly facts and you are asking me to rely of them as facts." Id./pg29 Line 14-17. He allowed pure speculation by Alan Cohen to seize everything, which I believe has been destroyed. Cohen was then given a job at one of the firms I was tracking, Goldman Sacks. If you think the "club" cannot control the courts, you are wrong! There is never a coincidence. After Cohen & Schiavoni removed all lawyers, the lawyer appointed, David Cooper, just so happened his wife was counsel to AIG!

I believe this is why I was thrown into prison on contempt of court denied my lawyers, denied any trial ever, or any right to appeal. There is clearly a way that federal courts can strip you of all rights, just call it contempt. The Constitution was intended to be a restraint upon the Government. When you stack the courts with former prosecutors to pretend they are now fair judges, this is what you get. At my sentencing, Judge John F. Keenan on April 10th, 2007, tried to discredit the model alleging that I got the idea from a movie called "Pi" by an Australian company that was about a man who created a computer model based upon Pi. The problem is, that movie was based upon me, and did not come out until I was in prison after 1999. This bothered me because it completed the circle involving the courts in an attempt to rewrite history. The courts believe they can dictate to the poeple, rewrite the truth, and delight in their own applause regarding their cleverness. The US Attorney seems it even intimidated the NY Times complaining about a front page article questioning my guilt.

The forensic accountant, Michael M. Mulligan (FCL Advisers, Great Falls, Va.) wrote to the court questioning my guilt, whether there was even a crime, a complained that for more than 6 years the Government would never provide evidence. Republic's own staff were illegally trading in the accounts and about 25% of all trades were backed-out as errors by them, which made me believe the "club" was parking trades in my accounts using the cash for margins or at least Republic's staff were.

The "club" can control government attorneys when they are there only looking for a "big" paying job. Politicians can be prosecuted for such schemes, but who will ever prosecute the prosecutors? Serious ethical revisions are desperately needed.

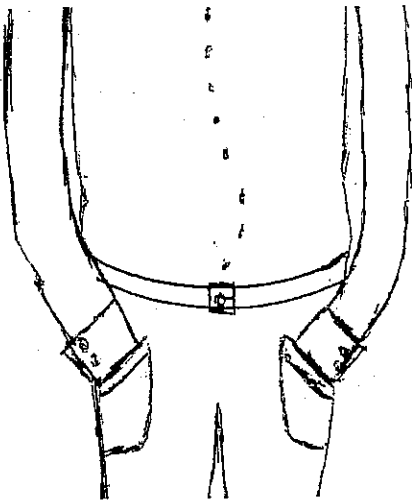
The Government seized the computer, but it self-destructed when moved. They then used the Institute as a tool. Schiavoni sent an e-mail to Martin Weiss of Florida who offered to rent the operation to keep the forecasts going, but to do so, they demanded the source code, which Weiss stated he did not need. I declined and the Institute was closed by Judge Owen. I find it ironic that the model designed to help in times of a major crisis, was destroyed by the "club" because they could not manipulate markets against it and in the end, destroyed their own industry.

The Solution

Real Money Supply
CONTRACTION

We must come to face the real facts. Traditional old world economics is no longer applicable. The greatest error of the money supply being fixed to the gold standard, was that the discovery of gold determined the supply of money altering policies of government and subjecting the private sector to swings in the boom and bust sense that would be influenced with respect to amplitude increasing volatility. We can see such periods following the Gold Rush of 1849 in California and the consequences of the deliberate inflation created by the "Silver Democrats" that led to virtual bankruptcy requiring J.P. Morgan to bail out the government in 1896.

No doubt there will be those who would never consider deliberate inflation as fiscal irresponsibility. However, when Paul Volker was fighting the commodity boom into 1980 and raised short-term interest rates, we must realize that the biggest spendthrift within society is the government. By deliberately raising interest rates to stop private sector spending, the national debt was put on an exponential growth path. The Government cannot be the stationary "disinterested" observer in Einstein's theory of relativity. It cannot see its own actions because it is so busy trying to attribute blame to everyone else. This is the fate of our nation at stake. This is the future of our children. Are we to be so irresponsible like a drug addict who steals today with no regard for the consequences just to obtain that quick fix?



If we merely borrow to fund the economic bailout, we have two major problems. The contraction of leverage far outnumbers the actual money supply even if we now count all cash and outstanding debt as money. Because there has been no regulation of the amount of leverage between banks as is done within the exchanges who raise and lower margin requirements in futures to manage the amount of leverage ("gearing"), we are looking at a contraction that could exceed the GDP in multiples. We must realize that borrowing to bailout the banks, is economically indistinguishable from moving money from your left pocket to your right. We are actually further adding to the economic contraction by soaking up cash in the system and redistributing. This is merely a form of Marxism. What we must do is to expand the sheer actual money supply to offset the contract in the "real" money supply created by the private sector in electronic

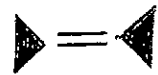
format that is also indistinguishable from suddenly discovering gold in California back in 1849. The fiscal policy of the nation has been usurped by the bankers, who did not even understand what they were doing.

We need to review the Keynesian theory. Borrowing does not stimulate for it will not increase the money supply to compensate for the contraction. Even buying

LEVERAGE



BORROWING =



REDISTRIBUTION

the debt from the backs by injecting more capital, is pouring bad money after even worse money. The Sub-Prime Mortgages should be purchased from the banks at current market value, placed in a public fund not managed by bankers, allow the mortgages to be renegotiated into a fixed rate, extending the time if necessary, but revaluing the property as Julius Caesar did, and setting up a reasonable payment schedule. If the homeowner cannot cope with the payments, then they lose the home. The bankers have to suffer their fate. Let the banks reorganize and consolidate, and there must be the survival of the fittest. That is not to say we should abandon FDIC. We must stand behind all bank deposits. That is the price we must pay as a nation for the failure to regulate the "big" houses as we do the "small" players.

We must collect the Sub-Prime Mortgages into a single fund that should then allow private investment. Individuals could invest even their 401Ks in part, and we must curtail government borrowing at all costs. Those who do not want to see the "social" spending of the Democrats, we should realize that there would have been far more than a chicken in every pot had we not spent so much on interest. In fact, had there not been interest payments, we could have spent the same amount of money and there would be a national healthcare like that in England. We must confront what is going on. It is time we restructure Government itself. Locking up every person in Banking or Wall Street will not solve the problem. Capitalism is not at fault. The "club" seeks "riskless" trades and rely upon Government to cover losses so why bother worrying about risk? Long-Term Capital Management collapsed when the IMF could not continue to support Russia that the "club" was buying their paper at 50-100% rates of interest. This is the same problem. The Sub-Prime Mortgages displaced risk for they looked to the Government as a guaranteed trade. That is not capitalism - that is plain old-fashion corruption. Let us deal with the truth!

The bad portfolios in Japanese corporates were purchased with a note removing the problem allowing them to get back to business. Do not allow the banks to work-out these problems and do not hire bankers to control the bailout. Hire qualified fund managers who will not protect the banks. A lawyer who represents himself, has a fool as a client. Bankers protect bankers. How can you prosecute the people in charge of the bailout? We need independent management and consolidation of SEC, CFTC and the Federal Reserve into one regulatory body that protects the system, not individuals. It is time for serious reorganization.

Stop the Marxism! We need to return to basics. End the income tax & replace it with a 10% National Sales Tax (excluding raw food & basic clothing) that also include real estate. China has boomed because it had no income tax! This is what the men who established this nation established until Marxism began with the passage of the income tax only for the rich in 1909, that now applies to everyone. Stop borrowing money from the poorest with no interest masking it as a "refund" - neck confusing them to make it appear as a gift. Do this, and we will reestablish jobs in America and it will matter not if someone is an illegal alien or not for they will still pay their fair share. We are losing jobs because of high taxes and high healthcare costs that just make it cheaper to set up service oriented jobs in India, Philippines, or Mexico. It is time the 800 pound gorilla lost a little weight. This will create a offsetting economic boom that will save the nation. Marxism does not work. We cannot be a little-bit pregnant. The Constitution was established to preserve the "Blessings of Liberty" to all posterty, not depending upon race, creed, or class. Marxism was a disaster. It should offer no model for the future. Just look at Russia and China. If we do not reorganize, Ayn Rand will be correct!

We can still have the benefit of a collective society that affords common goals to secure the individual way of life. There must be the funded programs with the growth in spending limited to the GDP growth that must be set by a global economic independent organization not subject to the political pressures of one nation. The

economic statistics are bogus. They are politically manipulated like inflation to reduce government spending where many areas are indexed to CPI. Government will always corrupt itself. The reason we have the "Julian Calendar" is because the Romans knew the moon calendar was incorrect and that additional days had to be inserted to maintain the seasons. Thus, someone had to be given the job to decide how many days to insert and when. That job was given to the High Priest ("Pontiff Max"), who was routinely bribed to stall elections by inserting months at a time. When Julius Caesar walked in to government, he did massive reforms and thus he eliminated the corrupt job of managing the calendar. This illustrates that we must remove the temptation to manipulate economic statistics to effect certain policies. **As they say**, statistics can be made to ensure they do not tell the truth. Carrots are very dangerous, because everyone who has ever eaten one has eventually died! Every country calculates their statistics according to a unique formula. How can we even compare economic growth from one nation to another?

We can monetize part of the debt by redeeming a specific quantity with newly generated cash. There should be some controls on the quantity of dollars created internationally through regulation carried into place by the Federal Reserve. We must also reestablish the entire purpose of the numerous branches of the Fed. That was put in place after the San Francisco Earthquake and the Crash of 1907. It was understood that there was a problem of regional capital flows. To prevent a shortage of cash that led to bank failures in some regions, each branch was autonomous that allowed for interest rates to be higher in some regions. We saw these problems in the 1980s, where a single national interest rates was used to stop stock market speculation that depressed farmers, because for World War II, all policy was usurped into Washington because there was to be a great expansion in debt. We need to stop using a giant club to stop one effect by punishing everyone. Do not forget, lower interest rate may not entice investment (see Japan 0.1%), yet it will deprive the elderly who are one of the largest savers, from earning an income when they no longer can work.

Just like a company gone into distress, we just have to deal with the whole problem. If we think we can just have big public trials like Nero did with the Christians to cover-up the burning of Rome, then we are going to have no future. You can execute all those on Wall Street. It still will not help. We need real legal reform and stop the abuse of prosecutions for political purposes. The true wealth of a nation is its consistent Rule of Law that protects not merely the personal liberty of citizens, but their property. If the Rule of Law is not going to be upheld and can be even manipulated for religious purposes, then we are just reducing ourselves to a Banana Republic with nuclear weapons & capital will flee!

We need serious reform of how government operates. We need a single agency to regulate the financial markets and banking. We have to stop the buying-off of Government attorneys and if they are not interested in a career, then get your experience someplace else. We need integrity to be restored. We must stop the abuse of "big" firms instigating the government agencies to remove competitors. This is either going to be a nation of true liberty, or melt-down the statute of liberty and use it for handcuffs and stop the propaganda. We must realize that "real" capital will flee if we are not fair and consistent in our treatment of all those within our society. If we are so intolerant that the Calvinistic forces that seek to gain control of the law to effect religious objects, we are no better than the Taliban in Afghanistan. True liberty and freedom is a given that is divine. Everyone has the free will to pray or to sin. A sin to one group is not a sin to another. There are a host of variations in Islam, Christianity, and Judaism. Who is right and who is wrong is not for courts or government to legislate. We must defend the right to speak freely for everyone, or we will silence ourselves. It was the hatred of the Protestants against the Catholics that not only tore England and Ireland

apart, but led to "prohibition" in the United States to create laws to imprison the catholic Irish and Italians. That created the Mafia, was responsible for countless deaths, untold waste of national wealth, and was repealed in the end. No more!

As Margaret Thatcher once said, "It is just time." She instinctively knew that cycles exist because people just get tired of the same old thing. We have an absolute right to good honest government. That is the battle cry of every civil war known to history. Just as Julius Caesar was a man of the people who was cheered when he crossed the Rubicon, we need someone of integrity so bad, unless we obtain honest reform, we are perhaps inviting the Gods of War to return. The people crave a fresh start, and they crave fiscal responsibility. Where are the aspirations, dreams, and promises of Jefferson & Madison? Where have they gone?

Edward Gibbon (1737-1794) wrote a most notable epitaph in his celebrated *The Decline and Fall of the Roman Empire* first published between 1776 and 1788, describing two men who ascended the Capitoline Hill in Rome to survey that which remained. One remarks to the other:

"Her primeval state, such as she might appear in a remote age, when Evander entertained the stranger of Troy, has been delineated by the fancy of Virgil. This Tarpeian rock was then a savage and solitary thicket: in the time of the poet, it was crowned with the golden roofs of a temple; the temple is overthrown, the gold has been pillaged, the wheel of fortune has accomplished her revolution, and the sacred ground is again disfigured with thorns and brambles. The hill of the Capitol, on which we sit, was formerly the head of the Roman empire, the citadel of the earth, the terror of kings; illustrated by the footsteps of so many triumphs, enriched with the spoils and tributes of so many nations. This spectacle of the world, how is it fallen! how changed! how defaced! The path of victory is obliterated by vines, and the benches of the senators are concealed by a dunghill."

Id./Chapter LXXI

We have a choice. Fix what is broken, or die leaving behind nothing of any significance as the dreams that once filled this land evaporate into oblivion. The impatience of capital will not long suffer the suspense of truth. Civil unrest and even war follow economic declines. The clock is ticking. The Civil War cycle turned in 2002. The Clash of reason is on the horizon. It cannot be business as usual.

Indeed, it is only a matter of time. Marxism, socialism and communism are not the alternative for true capitalism is freedom. The "club" did not seek capitalism. They also sought to control the free markets for personal gain, using government. We need real reform. Just as there must be a separation of church and state that the Religious Right does not respect trying to manipulate the law for religious purposes no different than the Taliban, we desperately need ethical reform to stop the desire to rig the game. Adam Smith was correct. But keep in mind, everyone has a self-interest and acts upon it. I want to preserve freedom for my posterity and to stop the corruption that leads to legal persecutions of groups, industries, or even individuals. Liberty will not be known by our posterity unless we just once, see the lessons of time and stop the linear quick-fix answers that are never a solution

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