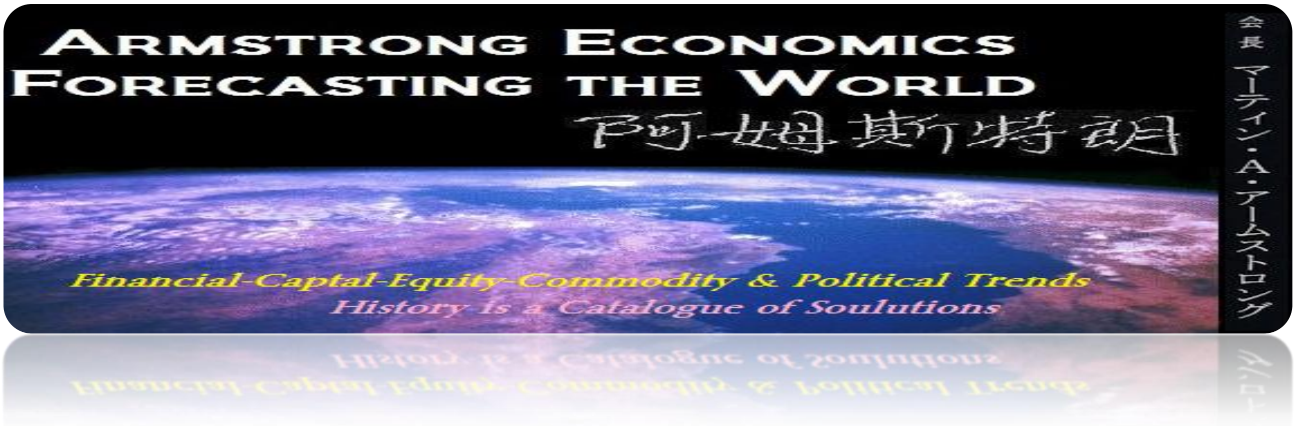

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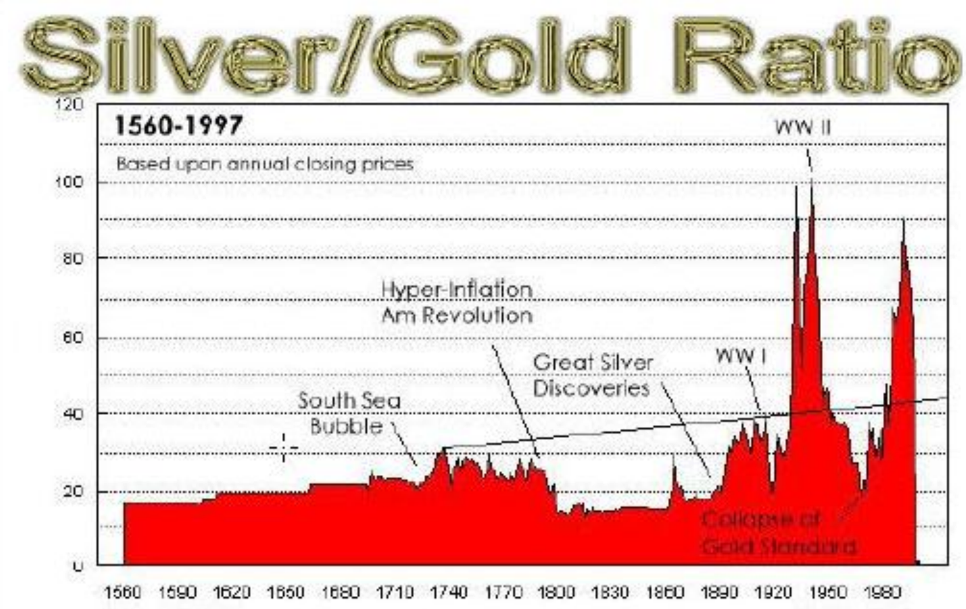


By: Martin A. Armstrong
former Chairman of Princeton Economics International, Ltd.

THE highest weekly closing in gold was the last week of August closing at 1876.90. The intraday high did manage to form in September just a hair above that of August, but the upward momentum is dying. September 15th was precisely 3.14 months from the June turning point and it appears to be the precise day that they are trying to now save the Euro with intervention. Of course this will change nothing long-term for bailout out Greece to prevent a default is not addressing the declining economic conditions. Without structural reform, the long-term remains very much the same – just delayed.

THERE is far too often so much disinformation about gold that I get perhaps more questions on this subject matter asking me to please sort out the facts from the fictional nonsense. Pictured here is the silver-gold ratio back to 1560. What this illustrates is the simple truth. **THERE IS ABSOLUTELY NOTHING THAT REMAINS FIXED** or

CONSTANT over the course of time and circumstance. Everything fluctuates with time. That is simply the nature of the beast. One need NOT craft such stories of fixed relationships or a mythical gold standard that will solve all the problems to justify buying gold. Plain and simple, **ALL** tangible assets are a hedge against government (**NOT INFLATION**) yet the primary difference is whether the asset is **MOVABLE**. For example, real estate will rise during certain periods providing a hedge against the declining purchasing power of a currency. However, it cannot be transported if you need to leave. Diamonds involve opinions as to their grade and value. Art is in the eye of the beholder. **GOLD,** on the other hand**,** is the same asset in all countries and it is known for what it is.

We need not conjure up wild scenarios to justify gold's unique status. **INFLATION** is truly an isolated event such as a food shortage that causes the price of that **INDIVIDUAL** commodity to rise. When **EVERYTHING** is rising, this is **NOT** inflation, but the **DEPRECIATION** of the purchasing power of the currency. This is **SUBSTANTIALLY** different than a hurricane that wipes out the oranges in Florida but does not cause the price of plastic to rise in New York. One is caused by **SUPPLY** changes relative to **DEMAND**, where the rise in **ALL** prices reflects the decline in the currency, not tangible objects.

Perhaps the greatest nonsense surrounds this idea of a ***gold standard*** and somehow this will solve everything. One question put it plainly by a reader:

> *"If money is intangible, not tied in any way to gold, how in the heck do you prevent any govt, or even a private agency, from eventually inflating it?"*

What I fail to understand is **WHY** this seems so important to people. We had a "***gold standard***" and it completely failed because governments printed more currency than there was gold at the stated official **FIXED** rate. The politicians would not raise the **FIXING** from $35 because that would require admitting they failed completely in their fiscal management. The problem is **GOVERNMENT**, not what is money. If it were cattle, cowrie shells, gold, or slave girls as Saint Patrick wrote about when he arrived in Ireland, it really does not matter. It is always the **FISCAL MISMANGEMENT** of government, **NOT** the monetary system. So tying money to gold will not solve anything. As they say – **BEEN THER DONE THAT!** It is the political system that has to stop this "***vote for me and you will get…***"

Not even a **BALANCED BUGET** will fix things. Over 40% of interest is exported and this will grow. Even under a **BALANCED BUDGET** we will end up in the position where 100% will be exported. This is the same insanity in Europe. The entire focus is just getting the bailout to stop the immediate pain. Will this change the dynamics or just

postpone things? Without a structural revision of the monetary and debt system, we are simply screwed.

I fail to see the problem here as to why we need all these crazy half-truths to justify buying gold. The latest craze is about **PAGE** (*Pan Asia Gold Exchange)*. Somehow the new Chinese gold market will be an "***honest***" market compared to US and Europe. People have distorted this issue of ***spot v. futures*** claiming the futures market is dictating the spot market and somehow this should be the other way around and it is evil. Some imply this is why gold is not $10,000 right now. They further argue that the US/European spot market is not real for you own no real title to a specific bar of gold. You can say the same thing about a $20 bill you deposit in a bank. When you go back and withdraw the $20, it will not be the same actual note. If you buy a stock it too is in "***street name***" unless you take delivery for only then will it be actually issued in your personal name. This is the way **EVERYTHING** functions. It is not abnormal. Title does not exist in anything unless you take delivery. If you invest in a mutual fund, you no longer have title to that specific money.

The **PAGE** market will be a 10 ounce 90 day contract and it will be in **renminbi.** This story is being spun to make people think that magically positions will now gravitate to China from COMEX and London because of the lack of title. This is just nonsense. This would then create a contango because **PAGE** will be traded in **renminbi.** You will then have currency risk.

Nonetheless, people making up these stories to justify buying gold are missing the real point of this contract in **renminbi.** In other words**,** what China is doing is flying an indirect way to trade its currency. You will be able to arbitrage the gold stripping out the **renminbi.** China and its central bank are NOT stupid. The people I met with in the central bank in Beijing were traders, not academics. They know **PRECISELY** what they are doing. This is opening the door to indirect currency trading. From their perspective, this will allow them to experiment with a free floating currency without it directly affecting the exchange rate. It is a clever black market derivative.

The ratio of trading futures to actual spot gold is about 10:1 on a bad day. This is another pet argument that somehow is twisted into some evil plot where the futures is setting the tone for the price in the spot market. This simply means people prefer futures than spot because they can **LEVERAGE** their money. This is no different than buying stocks on margin. All commodity markets trade the same way. This is not evil. If you trade spot, you pay cash in full. People trade the futures to **LEVERAGE** their money the same as buying stocks on margin with a little more kick.

In the 1970s, I helped many Arabs use the metals market to earn interest they religiously were not allowed to earn. They bought gold and sold it forward. That forward price was

the effective interest rate. They leased gold because they could not earn interest. It was no big deal. This is simply the way the futures markets gained the capital backing.

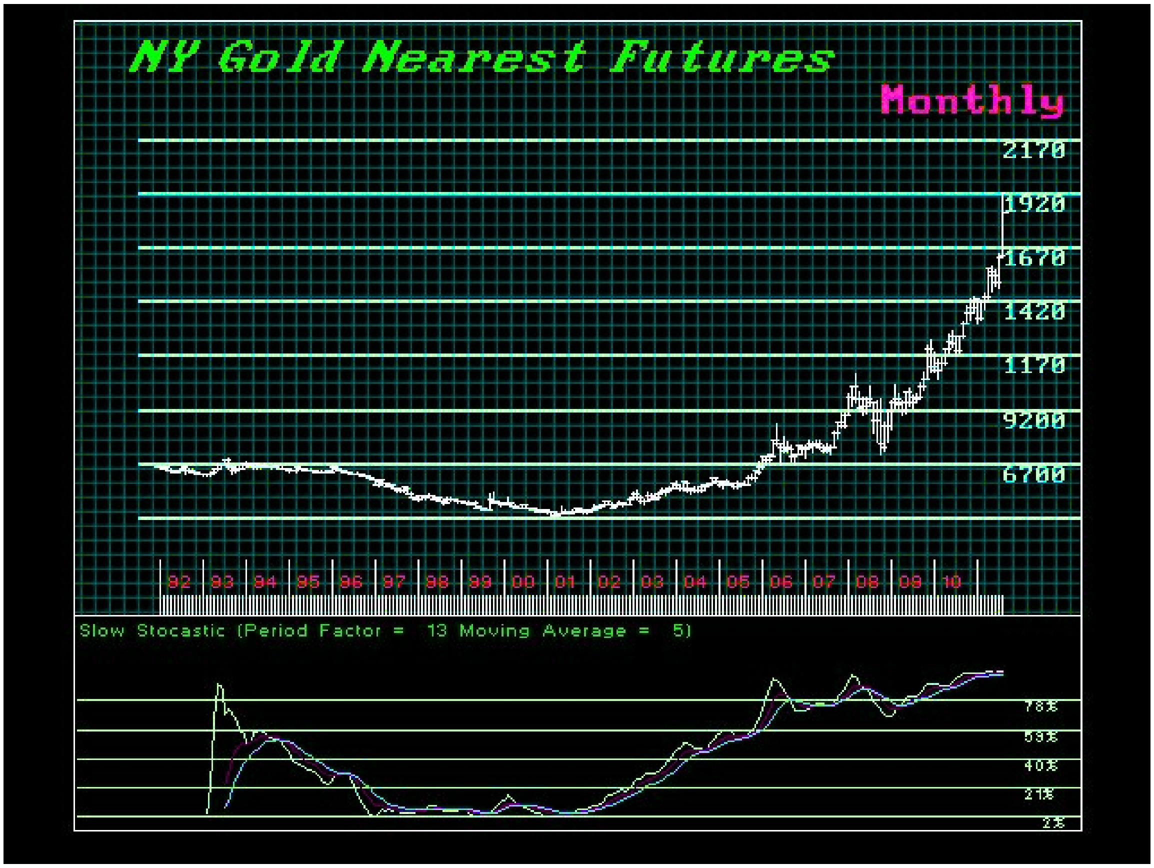
There have been schemes to manipulate markets. This was common in ALL commodities especially the agricultural markets during the 1970s. Nevertheless, this is not why gold has not rallied just yet beyond the $2,000 level. It is just a matter of time and the real catalyst will be the sovereign debt crisis. They manipulate silver more so than gold because it is easy. We really do not need all these scenarios to justify gold. It is the natural hedge against geopolitical and economic instability. In that regard, gold is coming of age.

For now, gold's highest weekly closing was indeed the last week of August. As long as that holds, then the retest of support is likely. A daily closing below 1730 will warn of a sustain decline ahead and a weekly closing below 1605 will signal a correction is indeed underway.

Warning

The Following Section is Written by the Computer. It is a Preliminary Attempt to Restart the System. This is <u>not</u> yet fully tested and its forecasts should not yet be regarded as accurate as they once were. The computer trades the markets in theory and thus the positions it states it has taken are not live and are not offered as having been previously forecast. They are offered purely as an observation at this moment in time.

A Technical Outlook For NY GOLD



The long-term view in gold recognizes that the current bullish trend in NY GOLD may be forming a major high at this time on a temporary basis. However, as long as this year closes ABOVE $1405.50, then it is possible that the current bullish long-term trend will continue next year where a new intraday high could still be made. In the event of new intraday highs developing beyond this year, then the final high could extend into 2013 if we see a yearly closing above the 2011 high. On the other hand, continuing to make new highs beyond 2013 would warn of a broader rally extending into as late as 2020. However, if new intraday highs are NOT sustained next year, then 2011 may produce the major high on a closing basis as well as on a cyclical basis for the near-term. Since we do not has a spike high in a Phase Transition style high, it is unlikely that this high will be a major high long-term as was the case in 1980.

The monthly chart illustrated here shows that we have made a slight Phase Transition spike and the oscillators are at the extreme upper-end warning a correction is needed to bring gold back in line. With September 15th being precisely 3.14 months from the turning point on the Economic Confidence Model, it is curious that other countries are suddenly coming to te rescue of Greece right on the day of the model.

Report Written By the Computer

DAILY LEVEL

DAILY REVERSAL SYSTEM

At this time, the Major Daily Bearish Reversals are 178620, 176360 and 175950. The closing on September 15th at 1781.40 elected the first Bearish Reversal warning of a retest of key support. Unmistakably, only a daily closing below 1730 will signal that a strong temporary reaction to the downside will continue for now. Our model suggests that the Major Daily Bearish Reversals are found at 1730 followed by 1642 and 1578, with additional reversals at 1644, 1585 and 1488. It should be noted that one key reversal appears to be very important. We see that a daily closing beneath 1642 may signal that a serious sell-off is likely to follow thereafter. The Weekly Bearish Reversal lies at 1605 and if that gives way, we should see golf test the mid 1400 area.

The Reversal System immediately displays Major Daily Bullish Reversals at 188340. Thus, only a daily closing above 188340 will signal that a strong temporary reaction to the upside will continue for now.

Daily Reversals
Major Bullish 188340
Major Bearish 178620 176360 175950 173080 164420 164220 158540 157820 148840

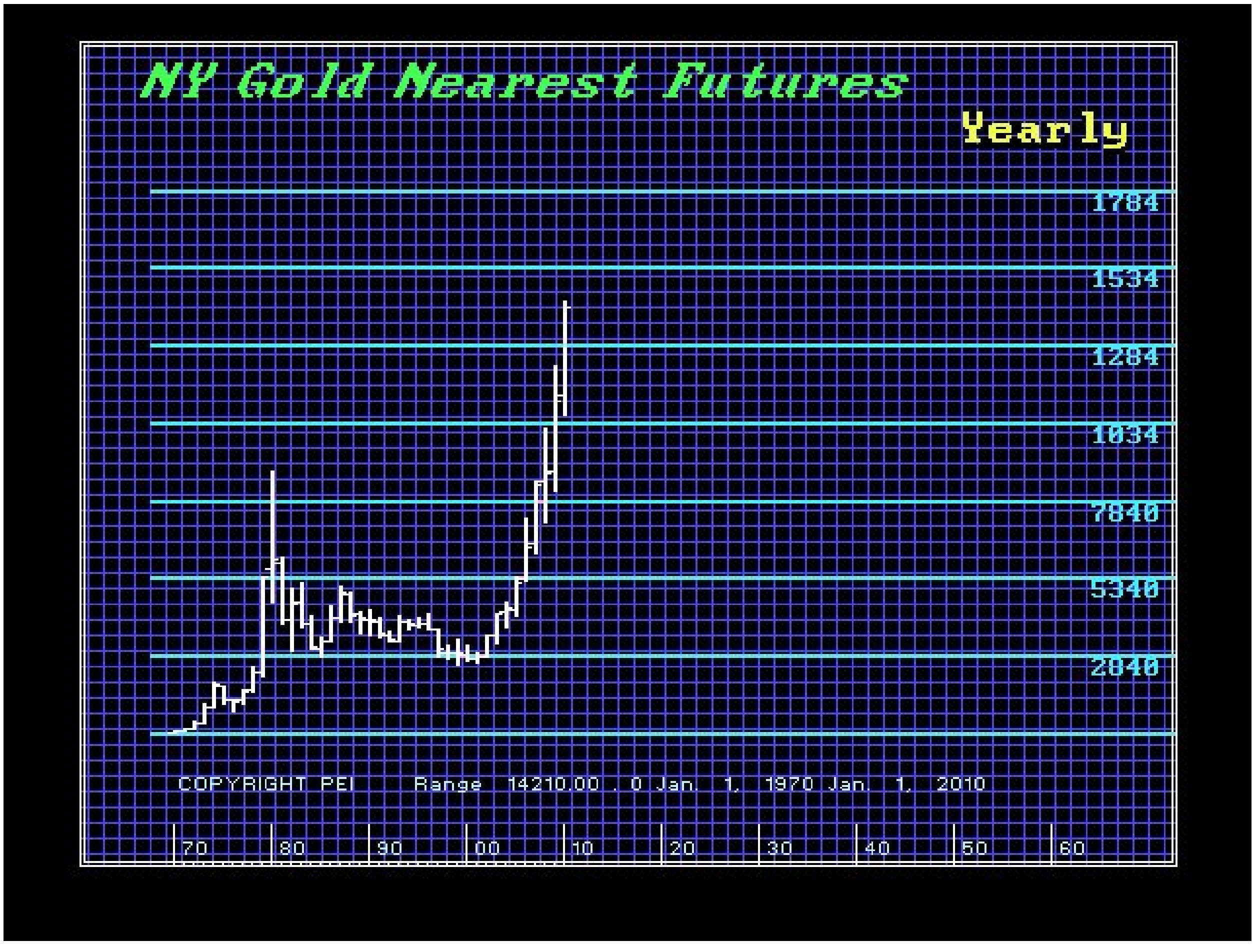
DAILY COMPUTER RECOMMENDATION

On the Daily level of our model we remain SHORT 1 position. The last SHORT position was taken on the close of 09/12 at 181330. We would look to add another position by selling a Daily close below 178680. We would look to COVER all outstanding SHORT positions by buying a Daily close above 188140 and simultaneously REVERSING into a LONG position. From a timing perspective, you may want to consider taking profit if new lows are established on 09/20 or 09/22.

DAILY TIMING

Using a composite of a variety of timing intervals, several targets appear on the horizon in NY GOLD. The key days for a turning point will be 10/06 and 10/07. The Directional Change models indicate that turning points are due of 09/15, 09/22, 09/23, 09/26 and 09/29. Our Panic Cycle Models suggest that higher volatility is due of 09/20.

YEARLY LEVEL



This year our indications on the Yearly level in NY GOLD, are bullish on both the short-term momentum and trend according to the system model. We also find that intermediate indicators are in a bullish position. On the broader perspective, the Cyclical Strength Model is currently bullish. Everything on the long-term models, including momentum and trend, is still in the bullish mode on the Yearly level. Therefore, support appears to rest under the market at the 101120, 72500, 71250, 52470, 34250, 28050, 7000, 4370, levels. Resistance, however, is largely technical. This shows that the main support lies at that 1000 level which should provide support in the worst of times.

YEARLY REVERSAL SYSTEM

At this time, the Major Yearly Bearish Reversals are 105800 and 60950. Consequently, only a yearly closing below 60950 will signal that an immediate downtrend could unfold leading to a renewed bear market ahead.

NY GOLD remains in an extremely strong position in the broad sense. As long as this market holds ABOVE 105800 on an annual closing basis, then new record highs are still possible in the years ahead probably going into 2020. Our Yearly Bullish Reversal stands above the market at 170420. A yearly closing above this level will signal that this market should continue to advance to new recent highs.

Yearly Reversals
Minor Bullish 170420
Major Bearish 105800 60950 41110 30430 27680 19750 11470

YEARLY
COMPUTER RECOMMENDATION

On the Yearly level of our model we remain LONG 3 positions. The last LONG position was taken on the close for 2010 at 111260. Our general target objective would be to Sell new high above 190000. We would look to COVER all positions using an MIT just below the 191400 price level. We would reenter a long position by buying a Yearly close above 170420. We would use a PSXCO at 78180 on a Yearly closing basis OCO with an IDPSX at 42630. Reversing into a short position should be considered if 78180 is penetrated on a yearly closing basis. From a timing perspective, you may want to consider taking profit if new highs are established during 2012, 2014, 2015 or 202o.

YEARLY TIMING

On our empirical models, the ideal primary target for the next minor cycle low on the yearly level remains 2015, particularly since our last target objective of 2010 produced a high at 143800 in NY GOLD so far. If this new target objective is successful, we then expect to see a reaction in the opposite direction unfold on the next major cycle target leading into 2017 which may extend into 2019/2020 which is the next key target objective. In the event that the high of 2011 is penetrated on an intraday basis prior to 2015, or the key Yearly Bullish Reversals are executed, then a cycle inversion would be implied. A cycle inversion would also be implied if the high of the previous year were penetrated during the 2015. Therefore, under a cycle inversion scenario, it would then appear that 2015 should ideally unfold as a high instead of a cycle low and all subsequent targets would also invert causing the next cycle low to unfold during the 2017. Nevertheless, as it appears now, 2015 should produce a minor cycle low followed by a major high in 2017 with a key re-test of support come 2019. Therefore, the next major turning point is due will be the 2017 which will be followed by another major target due 2028 in the period ahead.

Utilizing a composite structure in cyclical timing analysis, the key years for a turning point in NY GOLD will be 2017 and 2028. The Directional Change models indicate that a turning point is due the year of 2016. Our Panic Cycle Models suggest that higher volatility is due the year of 2019.

Yearly Turning Points:
2012, (2015), 2020, (2022)

Yearly Indicating Ranges

Date	Momentum	Trend	Long-Term
2011	52470-27220	71250-28050	72500-31470
2012	60950-25250	81000-32610	84110-33640
2013	71250-26380	101120-31270	105800-38820

YEARLY PATTERN RECOGNITION

If this year closes below 112506, then the upward momentum has been lost which implies that a temporary top is in place and a near-term retest of support should begin.

QUARTERLY LEVEL

QUARTERLY REVERSAL SYSTEM

Our Projected Bullish Reversals for this quarter stand at 157971 and 163700. The highest quarterly closing so far has been 150500. This warns that the last two weeks of September are going to be critical. If September closes BELOW 157971, a high is in place and a decline into 2012 is likely. Therefore, a quarterly closing above this 163700 will be essential to maintaining a uptrend near term. If this market closes below 157971 on a quarterly closing basis in September, then the immediate trend must be considered as neutral at the very best and any close beneath a Bearish Reversal would imply that at least a temporary high is in place for now and that a retest of key support is likely to develop.

On the Reversal System, we find that the Minor Quarterly Bearish Reversals are found at 116700 and 105900 followed by 89080 and 55760. Thus, only a quarterly closing below 105900 will signal that a serious sell-off is likely to continue from there in the short-term up to a two year reaction low. Nonetheless, only a close below 71250 will suggest a reversal in long-term trend.

Quarterly Reversals
Minor Bullish 157971 163683
Minor Bearish 116700 105900 89080 71250 55760

QUARTERLY

COMPUTER RECOMMENDATION

On the Quarterly level of our model we remain LONG 2 positions. The last LONG position was taken on the close of the 4th Quarter 2010 at 142760. Our general target objective would be to Sell above 190000. We also see a technical objective for profit taking at the 184760 level. We would use a PSXCO at 116760 on a Quarterly closing basis. Reversing into a short position should be considered if 116760 is penetrated on a closing basis. From a timing perspective, you may want to consider taking profit if new highs are established during the 3rd Quarter 2011 or the 4th Quarter 2011.

QUARTERLY TIMING

According to our empirical models, the ideal primary target for the next minor cycle low on the quarterly level remains 10/2011, particularly since our last target objective of 06/2011 produced a high in NY GOLD. If this new target objective is successful, we then expect to see a reaction in the opposite direction unfold on the next major cycle target leading into 01/2012. Thereafter, a re-test of support should develop 04/2012 which is the next minor target objective. In the event that new highs on an intraday basis are made 10/2011, or the key Quarterly Bullish Reversals are executed, then a cycle inversion would be implied. Therefore, under a cycle inversion scenario, it would then appear that 10/2011 should ideally unfold as a high instead of a cycle low and all subsequent targets would also invert causing the next cycle low to unfold during the 01/2012. Nevertheless, as it appears now, 10/2011 should produce a minor cycle low followed by a major high in 01/2012 with a minor re-test of support come 04/2012. Therefore, the next major turning point is due will be the 01/2012 which will be followed by another major target due 10/2012 in the period ahead.

Using a composite of cyclical analysis, the key quarters for a turning point in NY GOLD will be 02/2014 and 10/2017.

Quarterly Turning Points:

07/2011, 04/2012, (07/2012), 07/2013, 01/2014

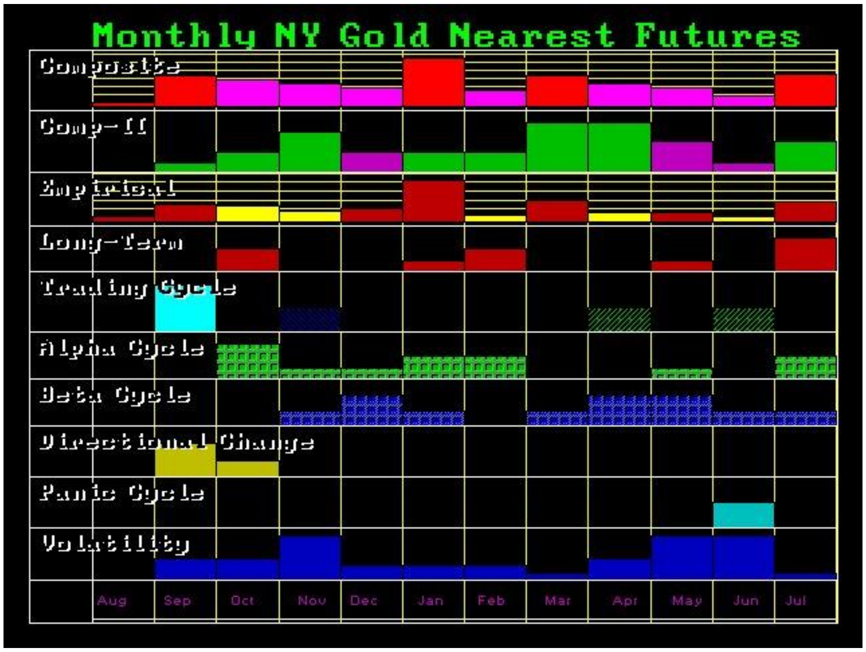
Quarterly Indicating Ranges

Date	Momentum	Trend	Long-Term
07/2011	112640-55430	127870-59080	131560-88900
10/2011	116760-55340	131380-58300	132580-76740
01/2012	131560-55580	141680-61080	143870-70860

QUARTERLY PATTERN RECOGNITION

If this quarter closes below 145860, then the upward momentum has been lost which implies that a temporary top is in place and a near-term retest of support should begin.

MONTHLY LEVEL



MONTHLY REVERSAL SYSTEM

At this time, the Major Monthly Bearish Reversals are 161800, 146500, 138500, 116500, and 93400. Therefore, only a monthly closing below 93400 will signal that an immediate downtrend could retest long-term support warning a sell-off is likely to follow which will suggest a reversal in long-term trend for two to three years becomes possible.

NY GOLD remains in a strong position as long as September closes ABOVE 164000. As long as this market holds ABOVE 161800 on a monthly closing basis, then new record highs are still possible in the near-term. A monthly closing beneath this area will warn that the near-term trend is turning bearish and a retest of support will unfold. It will require a monthly closing ABOVE 198300 to suggest a renewed uptrend near-term.

Monthly Reversals
Major Bullish 198300
Major Bearish 161800 146500 138500 116500 93400

MONTHLY TIMING

Looking at our empirical models, the ideal primary target for the next major cycle low on the monthly level remains 10/2011, particularly since our last target objective of 08/2011 produced a high at 191790 in NY GOLD. If this new target objective is successful, we then expect to see a reaction in the opposite direction unfold on the next key cycle target leading into 12/2011-01/2012. Thereafter, a re-test of support should develop 02/20191212 which is the next minor target objective. In the event that the high of 08/2011 is penetrated on a monthly closing basis prior to 10/2011, or the key Monthly Bullish Reversals are executed at 198300, then a cycle inversion would be implied. Therefore, under a cycle inversion scenario, it would then appear that 11/2011 should ideally unfold as a high instead of a cycle low and all subsequent targets would also invert causing the next cycle low to unfold during the 01/2012. Nevertheless, as it appears now, 10/2011-11/2011 should produce a major cycle low followed by a key high in 12/2011-01/2012 with a minor re-test of support come 02/2012. Therefore, the next major turning point is due will be the 06/2012 in the period ahead.

Utilizing a composite structure in cyclical timing analysis, the key months for a turning point in NY GOLD will be 10/2011 and 02/2014.

Our Directional Change models indicate that turning points are due the months of 10/2011 and 11/2011. Our Panic Cycle Models suggest that higher volatility is due the month of 06/2012.

Monthly Turning Points:
(09/2011), (10/2011), (01/2012), (06/2012), 08/2012

Monthly Indicating Ranges

Date	Momentum	Trend	Long-Term
09/2011	156200-149000	194700-160400	125800-106520
10/2011	165000-148000	158000-146500	134500-124550
11/2011	194750-160500	156200-149000	139800-130850

MONTHLY PATTERN RECOGNITION

Our Pattern Recognition Models warn that if 08/2011 stands as the highest monthly closing, then this may prove to be an important temporary high and that long positions should consider taking profit and reentering only if new highs are established next month on a closing basis.

WEEKLY LEVEL

WEEKLY REVERSAL SYSTEM

At this time, the Major Weekly Bearish Reversals are 173000, 160500, 152200, 140890 and 136500. Hence, a weekly closing below 173000 will signal that an immediate downtrend could become more pronounced in the short-term. A weekly closing beneath 160500 will signal a change in short-term trend. When we look at the Major level, our Weekly Bearish Reversals are found at 133730, 132690, 124180 and 121030, with additional reversals at 128030, 124620, 119800 and 114410. Thus, only a weekly closing below 114410 will signal that a more long-term change in trend is likely to follow.

NY GOLD remains in an bullish trend for now. As long as this market holds ABOVE 173000 on a closing basis, then new record highs are still possible. Our Weekly Bearish Reversal resting at 160500 remains the key to watch.

Weekly Reversals
Major Bullish 198760
Major Bearish 173000 160500 152200 140890 136500 133730 132690 128030 124620 124180 121030 119800 114410

WEEKLY
COMPUTER RECOMMENDATION

On the Weekly level of our model we remain LONG 1 position. The last LONG position was taken on the close for the week of 07/15 at 159230. Our general target objective would be to Sell new high above 190000. We would use a PSXCO at 160500 on a Weekly closing basis OCO with a IDPSX at 138540. Reversing into a short position should be considered if 160500 is penetrated on a closing basis. From a timing perspective, you may want to consider taking profit if new highs are established during the first two weeks of this month.

WEEKLY TIMING

The primary target on an empirical basis for the next minor cycle low on the weekly level, remains 09/16, particularly since our last target objective of 08/26 produced a high at 191790 in NY GOLD. If this new target objective is successful, we then expect to see a reaction in the opposite direction unfold on the next key cycle target leading into 09/23. Thereafter, a re-test of support should develop 10/07 which is the next major target objective. In the event that the high of 191790.00 is penetrated on a weekly closing basis intraday basis prior to 09/16, or the key Weekly Bullish Reversals are executed, then a cycle inversion would be implied. A cycle inversion would also be implied if the high of the previous week were penetrated during the 09/16. Therefore, under a cycle inversion scenario, it would then appear that 09/16 should ideally unfold as a high instead of a cycle low and all subsequent targets would also

invert causing the next cycle low to unfold during the 09/23. Nevertheless, as it appears now, 09/16 should produce a minor cycle low followed by a key high in 09/23 with a major re-test of support come 10/07. The ideal target where a major turning point is due will be the 10/07 in the period ahead.

Using a composite of cyclical analysis, the key weeks for a turning point in NY GOLD will be 10/07 and 01/27.

WEEKLY PATTERN RECOGNITION

If this week closes below 178403, then the upward momentum has been lost which implies that a temporary top is in place and a near-term retest of support should begin.